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Sewerage Facilities Revenue Bonds, Series A

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ALISO Water Management Agency
\$4,250,000

Sewerage Facilities Revenue Bonds, Series A





ALISO WATER MANAGEMENT AGENCY

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George G. Logan, *City Attorney*

SPECIAL SERVICES

Bond Counsel

Rutan & Tucker, *Santa Ana*
Stradling, Yocca, Carlson & Rauth, *Newport Beach*

City Auditor

Price Waterhouse & Co., *Newport Beach*

Project Engineers

Neste Brudin & Stone, *Escondido*
Brown & Caldwell, *Pasadena*

Financing Consultants

Hornblower, Weeks, Noyes & Trask Incorporated,
San Francisco

Trustee

Crocker National Bank, *Los Angeles*

Paying Agents

Crocker National Bank, *Los Angeles and San Francisco*
Bankers Trust Company, *New York*
Continental Illinois National Bank and Trust Company
of Chicago, *Chicago*

THE DATE OF THIS OFFICIAL STATEMENT IS
JANUARY 5, 1978

ALISO WATER MANAGEMENT AGENCY

January 5, 1978

TO WHOM IT MAY CONCERN:

The purpose of this bond prospectus is to furnish information regarding \$4,250,000 par value Aliso Water Management Agency Sewerage Facilities Revenue Bonds, Series A.

This prospectus was prepared by Hornblower, Weeks, Noyes & Trask Incorporated as Financing Consultants to and under the direction of the agency and the City of Laguna Beach which will lease the facilities to be financed from proceeds of the Sewerage Facilities Revenue Bonds. The information herein has been reviewed by appropriate officials of the agency and the city as to accuracy and completeness (see item 2 under "Closing Papers" on Page 6 of this prospectus) and the agency has adopted this prospectus as its Official Statement in connection with the Bonds herein being offered pursuant to Resolution No. 78-4 dated January 5, 1978.

All of the following summaries of the Resolution of Issuance, the Public Facilities Lease, and other documents are made subject to the provisions of such documents respectively, and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the agency and the city for further information in connection therewith. This Official Statement does not constitute a contract with purchasers of bonds. Any statements herein involving matters of opinion or estimates, whether or not so designated, are to be construed as provisional rather than factual.

The unqualified legal opinion of Rutan & Tucker, Santa Ana, California, and Stradling, Yocca, Carlson & Rauth, Newport Beach, California will be furnished to the successful bidder at the time of delivery of the bonds, at the expense of the agency. Bond counsel and financial consultant fees for services are contingent upon the sale and successful delivery of bonds.

Hornblower, Weeks, Noyes & Trask Incorporated may submit a bid for the bonds and, if it is the successful bidder, may purchase the bonds and resell all or a portion of the bonds to the public.

s/Carl Kymla

Chairman, Board of Directors

No dealer, broker, salesman or other person has been authorized by the Aliso Water Management Agency to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the agency.

Photographs on pages 13 and 26 courtesy Lloyd De Mers Air Views, Irvine; all other photographs courtesy L. E. Lang Photo, Laguna Beach.

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INTRODUCTION

The Aliso Water Management Agency ("the agency") was created under a joint exercise of powers agreement dated March 1, 1972, as amended, between the City of Laguna Beach, the El Toro Water District, the Irvine Ranch Water District, the Los Alisos Water District, the Moulton-Niguel Water District, the South Coast County Water District, and the Emerald Bay Service District. The agency is a public corporation under the laws of the State of California. The joint powers agreement creating the agency provides for the issuance of revenue bonds pursuant to the Revenue Bond Law of 1941.

The agency was formed to enable its members to jointly exercise their common powers regarding the treatment and disposal of wastewater to establish a total water management program for their consolidated service areas. The objective of the agency is to provide for the construction, maintenance, and operation of a regional wastewater transmission, treatment, and disposal facility. This facility will consist of an interceptor system, pumping stations, wastewater treatment plants, and an ocean outfall. The design and construction of the facilities are being financed using grant proceeds and contributions from the agency's members. The local contributions are based on the applicable capacity of the system to be utilized by each member.

The \$4,250,000 principal amount of Aliso Water Management Agency Sewerage Facilities Revenue Bonds, Series A, will be used to finance capacity in a portion of the regional facility ("the project") for the City of Laguna Beach. The project includes the interceptor system and onshore and offshore portions of the ocean outfall. The city will lease the project, upon completion of the facilities, from the agency. Lease payments by the city to the agency will be in an amount sufficient to pay principal and interest on the bonds. The project is scheduled to be completed 2½ years following contract award.

The agency and city presently anticipate a second bond issue of approximately \$3,500,000 to be sold in December, 1978. Bond proceeds will be used to finance the city's capacity in a new coastal treatment plant and related facilities.

The term of the public facilities lease will run until January 1, 2011, or until the revenue bonds are paid or adequate provision for their payment has been made. Under terms of the lease, the city will pay the agency annually in advance, due each May 1, beginning May 1, 1981, a base rental payment sufficient to meet annual interest and principal payments on the agency bonds coming due on the next succeeding July 1 and January 1. The first base rental payment will be due May 1, 1981, or whenever the city takes possession of the project whichever is later. The rental payments will become delinquent if not paid on or before

May 31 of each year. The city is required to pay additional rental above the base rental payments for expenses of the agency proportional to the city's capacity, such as all taxes and assessments, if any, insurance premiums, and trustee fees. The agency will construct, maintain, and operate the project but the city will be responsible for all maintenance and operation costs proportional to the city's capacity which will be billed to the city by the agency.

TABLE 1
SELECTED ESSENTIAL FACTS

The Bonds	
Principal amount	\$4,250,000
Maturities	1981-2007
Denomination	\$5,000
Average life (years)	20.40
Bond years	86.695
Maturities callable 1988 or after	1989-2007
Maximum coupon rate	8%
Maximum coupon spread	2%
City Financial Data	
1977/78 assessed valuation	\$164,784,470
Direct bonded debt	\$8,395,000
Estimated overlapping debt	\$4,553,235
Ratio direct debt to assessed valuation	5.09%
Ratio direct and estimated overlapping debt to assessed valuation	7.86%
Economic Data	
Estimated 1977 population	16,750
Per capita assessed valuation	\$9,838
1976 taxable transactions	\$66,657,000

Although the city may use any revenue source to meet lease payments, the city intends to use revenue from its sewer service charges to meet its obligations under the lease. Sewer rates were adjusted beginning July 1, 1977 for residential users and August 1, 1977 for commercial users to provide additional income to meet estimated obligations. These rates will have been in effect for nearly three years before the first base rental payment is due. Sewer service charges are billed as part of the property tax bill and, as such, are inseparable and due at the same time as property taxes.

The City of Laguna Beach is a residential community and a popular vacation and recreation area. Located in Orange County, the city is on the Pacific coastline 50 miles south of Los Angeles and 70 miles north of San Diego.

The economy of Orange County has diversified from principally agriculturally oriented industries to include manufacturing, trade, government, and service industries. Major employers in the county include Hughes Aircraft Company, McDonnell-Douglas Astronautics Company, Rockwell International, and Alpha Beta Company.

The city is situated nearby the Irvine Campus of the University of California which serves nearly 9,000 full-time students with a faculty of over 600. The city has convenient access to the San Diego and Santa Ana freeways via Laguna Canyon Road. Air passenger and freight service are available at Orange County Airport which is served by Air California, Hughes Air West and Golden West Airlines. Exceptional recreational facilities are available to city residents and visitors alike, and recreation and tourist trade is a major source of income to the city.



Laguna Beach, situated on the Pacific coastline about 70 miles north of San Diego, offers approximately four miles of public beach within city limits.

THE AGENCY

The Aliso Water Management Agency was created pursuant to a joint powers agreement entered into on March 1, 1972, by and between the Irvine Ranch Water District, the Moulton-Niguel Water District, the City of Laguna Beach, the South Laguna Sanitary District, the El Toro Water District and the Los Alisos Water District. In August, 1972, the agreement was amended to add two additional members, the Emerald Bay Service District and the Santa Ana Mountains County Water District. On July 9, 1975, the Santa Ana Mountains County Water District formally withdrew from the Aliso Water Management Agency and the South Coast County Water District became the successor to the South Laguna Sanitary District which was dissolved.

The Aliso Water Management Agency was formed pursuant to the provisions of Article I, Chapter 5, Division 7, Title 1 of the Government Code of the State of California. Each member agency has the common power to plan for, acquire, construct, maintain and operate facilities for the collection, transmission, treatment and disposal of waste water and the use of reclaimed waste water for any beneficial purpose. The purpose of the joint powers authority creating the agency was to enable the agency to jointly exercise the common powers of the members so as to establish a total water management plan for the Aliso Valley Watershed Basin and any related areas.

The agency is governed by a board of directors made up of one person from each of the member public entities, and each board member has one alternate director from his respective entity who may assume all rights and duties of the absent director. Each director and alternate serves at the

pleasure of the governing board appointing said member and alternate. The chairman and a vice-chairman are selected from among the membership of the board.

The joint powers agreement creating the Aliso Water Management Agency provides for the issuance of revenue bonds in accordance with the procedure and requirements set forth in Article 2, Title 1, Division 7 of the Government Code of the State of California (commencing at Section 6540) and to the extent applicable, the Revenue Bond Law of 1941.

The objective of the agency is to provide for the construction, maintenance and operation of a regional waste water collection, treatment and disposal facility to serve the Aliso Water Management Agency service area. The Aliso Water Management Agency plan has been approved by the Environmental Protection Agency and the State Water Resources Control Board, and grants of more than \$9,000,000 have been approved for various elements of the project. Each member of the agency is responsible for financing its individual share of the overall project not financed from grant proceeds.

The City of Laguna Beach has asked the agency to issue revenue bonds on its behalf to finance capacity in the north coastal interceptor and Aliso Creek outfall, onshore and offshore portions. Prior to delivery of the agency bonds, the city will enter into a public facilities lease in which the city will lease from the agency capacity in the facilities adequate to serve the entire City of Laguna Beach. The agency will manage the facilities but, pursuant to the lease, the city will agree to meet all maintenance and operation costs proportional to the city's capacity as well as debt service.

Public Facilities Lease

The agency and the city will enter into a public facilities lease dated for convenience January 1, 1978. The term of the lease will expire on January 1, 2011, or on any earlier date that all revenue bonds have been paid or adequate provision for their payment has been made. The agency will construct the project. Rental payments will be based upon the actual interest rates received on the revenue bonds.

Under terms of the lease, the city will pay the agency annually in advance, due each May 1, beginning May 1, 1981, a base rental payment sufficient to meet annual interest and principal payments on the agency bonds coming due on the next succeeding July 1 and January 1. The first base rental payment will be due May 1, 1981, or whenever the city takes possession of the project, whichever is later. The rental payments will become delinquent if not paid on or before May 31 of each year. The city is required to pay additional rental above the base rental payments for expenses of the agency proportional to the city's capacity, such as all taxes and assessments, if any, insurance premiums, and trustee fees. The agency will maintain and operate the project but the city will be responsible to pay its pro rata share of all maintenance and operation costs which will be billed to the city by the agency.

Abatement of Rental

As with all joint powers authority financing in California for cities, counties, and special districts, rent can only be paid for use and occupancy of the leased premises. Therefore, the base rental under the facility lease will be subject to abatement during any period in which, due to damages or destruction, there is substantial interference with the use and occupancy of the leased premises. Such abatement shall be in the same proportion that the construction cost of the damaged portion bears to the total construction cost. The lease nevertheless shall still continue in full force and effect.

Any rent paid by the city for a period of time during which said rent is subsequently abated shall be reimbursed, if requested, from insurance proceeds and, as necessary, from the interest, principal and reserve funds described in the section of this official statement entitled "The Bonds".

The Trustee

The Crocker National Bank will be appointed trustee pursuant to the indenture. The trustee will receive all of the bond proceeds and will disburse bond moneys in conformity with the indenture. In addition to holding and administering the various funds and accounts of the agency as they relate to the bonds, the trustee will invest the funds held in trust and will be the recipient of all revenues of the agency received from the City of Laguna Beach pursuant to the bond resolution. The trustee will also act as paying agent of the agency, paying bond principal and interest. The trustee will act as bond registrar and will authenticate all registered bonds.

THE BONDS

Authority for Issuance

The \$4,250,000 principal amount of Aliso Water Management Agency Sewerage Facilities Revenue Bonds, Series A are to be issued pursuant to Resolution No. 78-4 of the governing board of the agency, adopted January 5, 1978. The bonds are being issued under provisions of Article 2, Chapter 5, Division 7, Title 1 of the Government Code of the State of California. Sections 6540 et seq and the Revenue Bond Law of 1941, Section 54300 et seq. of the Government Code of the State of California.

Description of the Bonds

The \$4,250,000 principal amount of bonds are in the denomination of \$5,000 and are numbered A1 to A850. The bonds are dated January 1, 1978 and are payable annually on July 1 of each year as shown in the adjacent maturity schedule.

Interest is payable annually the first year on January 1, 1979 and thereafter semi-annually on July 1 and January 1. Both interest and principal on the bonds will be payable in Los Angeles and San Francisco at the principal offices of the trustee, Crocker National Bank, and, at the option of the holder, at the offices of the paying agents in New York and Chicago.

Redemption Provisions

Bonds maturing on or before July 1, 1988 are not subject to call or redemption prior to their fixed maturity dates. Bonds maturing on or after July 1, 1989 are subject to call and redemption, at the option of the agency, as a whole or in part in inverse order of maturity and by lot within a single maturity on July 1, 1988, or on any interest payment date thereafter, upon payment of a redemption price equal to the principal amount plus a premium equal to one-fourth of one percent for each year or fraction of a year from the redemption date to the maturity date of the bonds, except that in no event shall the premium exceed four percent.

In the event of loss of or substantial damage to or condemnation of the project which renders it unusable, all or any part of the bonds may be redeemed at any time by payment of the principal amount and accrued interest to the date of redemption plus a premium as set forth above but applied to all outstanding bonds, whether otherwise callable or not. The maximum premium is four percent.

Notice of Redemption

Notice of redemption is to be published in a financial newspaper or financial journal published in New York City. The first publication must be at least 30 days but not more than 60 days prior to the redemption date. The trustee is required to give written notice to the owners of any registered bonds.

Registration

The bonds are to be issued as coupon bonds which are not registrable by endorsement, but coupon bonds may be exchanged, at the holder's option, for bonds registered as to both principal and interest, with the privilege of discharge from registration.

MATURITY SCHEDULE

<i>Maturity Date July 1</i>	<i>Principal Maturing</i>
1981	\$ 55,000
1982	60,000
1983	65,000
1984	70,000
1985	75,000
1986	80,000
1987	85,000
1988	90,000
1989	100,000
1990	105,000
1991	115,000
1992	120,000
1993	130,000
1994	140,000
1995	145,000
1996	155,000
1997	170,000
1998	180,000
1999	195,000
2000	205,000
2001	220,000
2002	235,000
2003	255,000
2004	270,000
2005	290,000
2006	310,000
2007	330,000

Legal Opinion

The individual members of the municipal bond department of Rutan & Tucker, who developed the legal documents pertaining to issuance of the 1978 Bonds, announced their resignation from Rutan & Tucker effective December 31, 1977, and on January 1, 1978, began the practice of municipal bond law as Stradling, Yocca, Carlson & Rauth. In order to provide continuity in the processing of the legal transactions required for the issuance and delivery of the Bonds, Rutan & Tucker and Stradling, Yocca, Carlson & Rauth have agreed to render a joint opinion attesting to the validity of the bonds and their tax-exempt status.

The legal opinion of Messrs. Rutan & Tucker, Santa Ana, California and Stradling, Yocca, Carlson & Rauth, Newport Beach, California ("Bond Counsel") approving the validity of the bonds will be supplied free of charge to the purchasers at the time of the original delivery of the bonds. A copy of the legal opinion will be printed on each bond without charge to the successful bidder.

Tax Exempt Status

In the opinion of bond counsel, the interest on the bonds is exempt from taxes of the United States of America under present federal income tax laws and such interest is also exempt from personal income taxes of the State of California under existing statutes, regulations, and court decisions.

Security

Bond principal and interest coming due each year are payable from annual lease payments by the City of Laguna Beach. Under the terms of the Public Facilities Lease, the city agrees to pay an annual fixed base rental to the agency which will be sufficient to pay bond principal and interest, plus additional rental in an amount sufficient to meet other expenses of the agency proportional to the city's capacity. The city is obligated to include in its annual budgets the amount of the base rental and a reasonable estimate of additional rental.

Eligibility as Security for Public Funds

In the opinion of bond counsel, the bonds are eligible to secure deposits of public funds in the banks in the State of California.

Eligibility for National Banks

A request has been made to the Comptroller of the Currency for a ruling that the bonds of the agency are eligible for purchase, dealing in, underwriting and unlimited holding by national banks. The ruling is expected prior to the date of sale of the bonds.

Closing Papers

Each proposal for bids on the bonds will be understood to be conditioned upon the agency and/or the city furnishing to the purchaser, without charge, concurrently with payment for and delivery of the bonds, the following closing papers, each dated the date of such delivery:

1. Legal opinion—The unqualified opinion of Rutan & Tucker and Stradling, Yocca, Carlson and Rauth, Bond Counsel, approving the validity of the bonds and stating that interest on the bonds is exempt from income taxes of the United States of America under present federal income tax laws, and that such interest is also exempt from personal income taxes of the State of California under present existing statutes, regulations, and court decisions;

2. At the time of payment for and delivery of the bonds, the agency will furnish the successful bidder a certificate, signed by appropriate officers of the agency and the city acting in their official capacities, to the effect that to the best of their knowledge and belief, and after reasonable investigation, (a) neither the Official Statement nor any amendment or supplement thereto contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; (b) since the date of the Official Statement no event has occurred which should have been set forth in an amendment or supplement to the Official Statement which has not been set forth in such an amendment or supplement; nor (c) has there been any material adverse change in the operation or financial affairs of the agency or the city since the date of such Official Statement;
3. A certificate of an officer of the agency that on the basis of the facts and circumstances in existence on the date of issue, it is not expected that the proceeds of the bonds will be used in a manner that would cause the bonds to be arbitrage bonds;
4. A certificate signed by an officer of the agency that there is no litigation pending directly affecting the validity of the bonds;
5. The signature certificates of the officers and representatives of the agency, showing that they have signed the bonds, whether by facsimile or manual signature, and that they were respectively duly authorized to execute the same; and
6. The receipt of the Treasurer of the agency showing that the purchase price of the bonds, including interest accrued to the date of delivery thereof, has been received by the agency.

Title and Leasehold Insurance

As additional security for the bondholders, the agency will obtain a policy of title insurance from a recognized title insurance company in the principal amount of the bonds. The policy shall insure the agency's title in the leasehold estate created by the lease and by an appropriate endorsement shall insure the owner or owners of the bonds against any loss of principal, interest, or other sums secured by the resolution which the owner or owners would sustain in the event the lease were declared invalid and not binding and enforceable according to its terms. The total liability under the policy will not exceed in the aggregate the amount of the bonds. Should the lease be declared invalid, the title company would give the owner or owners of the bonds the option of having their bonds purchased by the company at the principal amount plus (subject to the limitation on total liability) the applicable premium and accrued interest. The policy will become effective on or prior to bond delivery.

Other Insurance

Insurance against accident to, loss of, or damage to the facilities to be constructed by the Agency will be provided in accordance with the provisions of the public facilities lease and the resolution. The amount of the insurance so required to be provided is believed by the City Manager of the City to be reasonable given the subsurface location and the nature of the facilities. However, said amount is substantially less than the estimated replacement cost of the facilities and less than the amount of bonds being issued.

The Trustee

The Crocker National Bank will be trustee for the agency. The trustee will receive all of the bond proceeds and will disburse bond moneys in conformity with the resolution. In addition to holding and administering the various funds of the agency, the trustee will invest the funds held in trust and will be the recipient of all revenues of the agency to be received pursuant to the resolution. The trustee will also act as a paying agent of the agency, paying bond interest and principal. The trustee will act as bond registrar and will authenticate all registered bonds.

Creation of Special Funds

The bond resolution provides for the establishment of special funds, all to be held and administered by the trustee. These funds, together with their sources and uses, are shown in Table 2.

Disposition of Bond Proceeds

The bond resolution provides that the proceeds from the sale of the bonds will be deposited with the trustee. The trustee will then place the proceeds (except premium, if any, and accrued interest, which shall be credited directly to the Interest Fund) in the Construction Fund, except that the following allocations will first be made:

1. To the Interest Fund an amount which, together with any premium and accrued interest, will equal the interest payable on the bonds on and before January 1, 1981.
2. To the Reserve Fund an amount equal to the maximum annual debt service.
3. To the Working Capital Fund the amount of \$5,000.

TABLE 2
FUNDS ESTABLISHED UNDER BOND RESOLUTION

<i>Fund</i>	<i>Source</i>	<i>Use</i>
Construction Fund (Sec. 3.04)	Bond proceeds	Acquisition, construction, and related costs. Remaining balance to other funds as indicated in the resolution.
Revenue Fund (Sec. 5.01)	City rental payments	Transfers to Interest, Retirement, and other required funds.
Interest Fund (Sec. 5.02[a])	Bond proceeds and transfers from Revenue Fund	Bond interest.
Retirement Fund (Sec. 5.02[b])	Transfers from Revenue Fund	Bond principal.
Reserve Fund (Sec. 5.02[c])	Bond proceeds (and Revenue Fund, if required)	Bond principal and interest.
Working Capital Fund (Sec. 5.02[d])	Bond proceeds, Revenue Fund, and additional rental	Agency's administrative and miscellaneous expense.
Operation and Maintenance Fund (Sec. 5.02[e])	Transfers from Revenue Fund	All costs of operation if operated by agency.
Redemption Fund (Sec. 4.05)	Transfers from Revenue Fund or other authorized source	Redemption of bonds before maturity.

Deposit and Application of Revenues

All revenues of the agency as defined in the resolution are pledged to the punctual payment of the bonds and the interest thereon. All revenues will be immediately deposited with the trustee who will credit the moneys to the Revenue Fund. All moneys in the Revenue Fund are to be set aside and deposited in special funds as indicated in Table 2 and are to be withdrawn from the special funds only for the purposes set forth.

Interest Fund—On or before June 1 of each year, beginning June 1, 1981, the trustee will deposit a sum sufficient, together with the balance then on hand, to pay the interest becoming due on the next succeeding July 1 and January 1.

Retirement Fund—On or before June 1 of each year, beginning June 1, 1981, the trustee will deposit an amount equal to the aggregate amount of principal due and payable on the outstanding bonds on the next succeeding July 1. Moneys in this fund are to be used solely for the purpose of paying the principal on the bonds.

Reserve Fund—A bond reserve fund equal to the maximum annual debt service will be created from the proceeds of the sale of the bonds and held by the trustee. The fund is to be used solely to pay principal and interest on the bonds in the event no other funds are available for that purpose and, whenever drawn upon, must be replenished. Moneys in the fund may be used to retire the last outstanding bonds of the issue.

Working Capital Fund—Moneys in this fund are to be disbursed by the trustee for payment of such items as taxes or assessments, if any, levied upon the project, administrative costs of the agency, trustee's fees, and insurance premiums. A sum of \$5,000 will be initially deposited into the fund and at least this amount must be maintained

as unencumbered working capital. It is anticipated that revenues from investment of money in the Reserve Fund and Revenue Fund, and base rental payments, will provide sufficient moneys for all purposes. However, if additional funds are required, the trustee is required to bill the city for additional rental which the city is obligated to pay under the terms of the lease.

Operation and Maintenance Fund—Under the terms of the lease, the agency will be responsible for operation and maintenance of the project, and the city will be required to pay its share of the operation and maintenance costs. However, if at any time the city should default in its obligations under the lease then the trustee is required to deposit in this fund all amounts which are required to pay for the maintenance and operation of the project.

Surplus—Any balance in the Revenue Fund on January 15 of each year, beginning in 1982, after the above transfers have been made, shall at the direction of the agency be used by the trustee to reimburse the city for any rental previously paid, or for the purchase or redemption of bonds, or for additional construction.

Additional Bonds

Section 3.05 of the resolution provides that no additional indebtedness may be incurred having a priority over the bonds currently being offered. Additional bonds may be issued on a parity with the present bonds, subject to the following conditions:

1. The additional bonds must be for the purpose of financing completion of the project or an addition to the project and must be declared by a supplemental resolution to be necessary.
2. The agency must be in compliance with all covenants of the resolution.
3. Proceeds from the sale of additional bonds may be used to complete or add to the project, may finance issuing costs, and may fund interest during the period of construction and one (1) year thereafter.
4. The additional bonds must be equally and ratably secured.
5. The additional bonds must be serial bonds payable as to principal on July 1, with interest payable on January 1 and July 1 of each year. The additional bonds may not be subject to call prior to July 1, 1988, except in the case of damage or condemnation.
6. The agency must enter into a revised lease with the city in which the city obligates itself to increase the base rental and additional rental under the lease in amounts sufficient to provide for the payment of the principal of and interest on the additional bonds when due and to make all other necessary payments.
7. The Reserve Fund must be increased to an amount equal to maximum annual bond service on all bonds and additional bonds to be outstanding.

Additional Covenants

The resolution contains other covenants, including but not limited to the following, in which the agency agrees:

1. To punctually pay the principal and interest of the bonds as they become due.

2. Not to mortgage, encumber, sell, lease, place a charge on, or otherwise dispose of the project or the revenues therefrom, nor to enter into any agreement which impairs the operation of the project or otherwise impairs the rights of the bondholders with respect to the revenues or operation without making adequate provision to protect the rights of the bondholders.
3. To construct and complete the project in conformity with the construction contract or contracts.
4. To maintain or cause to be maintained insurance, if such insurance is available from reputable insurers on the open market as follows: (a) against loss or damage to the property resulting from fire, lightning, and other perils in an amount not less than \$750,000 (subject to a deductible condition of not to exceed \$100,000 and subject also to increases and/or decreases in accordance with an index of construction costs) or the amount of the agency's outstanding bonds, whichever is less; and (b) against earthquake in an amount not less than \$750,000 (subject to a deductible condition of not to exceed \$100,000 and subject also to increases and/or decreases in accordance with an index of construction costs) or in the amount of the agency's outstanding bonds, whichever is less.
5. To maintain or cause to be maintained use and occupancy or rental income insurance against fire, lightning, and such other perils ordinarily defined as "extended coverage" in an amount of not less than one year's rental.
6. To maintain or cause to be maintained public liability insurance of not less than \$2,500,000 combined single limit, bodily injury, personal injury and property damage including umbrella excess liability.

7. To maintain or cause to be maintained workers' compensation for all persons employed in connection with the project.
8. To pay, discharge, or contest any taxes, assessments, or other charges upon the project or the revenues which might impair the security of the bonds.
9. To keep proper books of record and accounts and to file with the trustee annually, within 120 days after the end of each fiscal year, detailed independent certified audits covering the operation of the agency.
10. To maintain or cause to be maintained and to keep in good repair the project and all buildings and equipment.
11. That if for any reason the agency should operate the project, it will fix, prescribe and collect such charges as will be sufficient to pay the principal of and interest on the bonds as they become due, and to pay for all expenses of operation, maintenance, and repair of the project, and to maintain the special funds provided for in the resolution.
12. To protect and defend the security of the bonds and the rights of the bondholders. It will contest governmental assertions that the interest on the bonds is taxable under federal income tax laws. It will take no action which, in the opinion of counsel, would result in the interest received by bondholders becoming taxable under federal income tax laws, and will make no use of the proceeds of the bonds which would cause the same to be arbitrage bonds within the meaning of Section 103(c) of the United States Internal Revenue Code of 1954, as amended, and applicable regulations adopted thereunder.

Remedies upon Default

The resolution provides that any of the following will constitute an event of default:

1. If default shall be made in the due and punctual payment of the principal of, or premium (if any) on, any bond when and as the same shall become due and payable, whether at maturity, by proceedings for redemption, by declaration or otherwise;
2. If default shall be made in the due and punctual payment of any installment of interest on any bond when and as such interest installment shall become due and payable, and such default shall have continued for a period of thirty (30) days;
3. If default shall be made by the agency in the observance of any of the covenants, agreements or conditions on its part in the Resolution or in the bonds, and such default shall have continued for a period of sixty (60) days after written notice, specifying such default and requiring the same to be remedied, shall have been given to the agency by the trustee, or to the agency and the trustee by the holders of not less than twenty-five percent (25%) in aggregate principal amount of the bonds at the time outstanding;
4. If the agency fails to bring suit or other legal proceedings against the city for failure by the city to budget, appropriate or pay the amounts due the agency under the lease, and such failure continues for a period of thirty (30) days after the city's failure to so budget, appropriate or pay; or
5. If, under the provisions of any law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the agency or of the whole or any substantial part of its property, and such custody or control shall not be terminated or stayed within sixty (60) days from the date of assumption of such custody or control.

The resolution provides that, except as noted below, if any of these events of default occur, all of the outstanding bond principal and all accrued interest will become due and payable upon written notice to that effect being given the agency by the trustee or by the holders of at least a majority of the outstanding principal amount of bonds.

The resolution further provides, however, that the holders of at least a majority of the bonds may rescind such notice declaring all principal and accrued interest to be due and payable if the agency shall have cured all events of default or shall have made provision therefor. No such rescission shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

The resolution also provides that the bondholders have the right of mandamus or other appropriate remedy to compel the performance of the duties and responsibilities imposed by the resolution.

Amendment of the Resolution

The resolution may be modified or amended only with the consent of holders of 60% of all bonds then outstanding (exclusive of any bonds owned by the agency or any of the parties to the agreement), unless the modification or amendment is for the purpose of curing ambiguities or defects, in which case no bondholder's consent is required. No modification or amendment will extend the maturity of the bonds or the dates for paying interest thereon, change the monetary medium in which principal and interest are payable, reduce the interest rate or principal amount payable or reduce the percentage of consent required for amendment without the express consent of the bondholder or registered owner of the bond affected.

TABLE 3
ALISO WATER MANAGEMENT AGENCY
\$4,250,000 SEWERAGE FACILITIES REVENUE BONDS
ESTIMATED ANNUAL BOND SERVICE

<i>Fiscal Year</i>	<i>Principal Maturing July 1</i>	<i>Estimated Interest at 7%</i>		<i>Total Estimated Bond Service</i>
		<i>July 1</i>	<i>January 1</i>	
1978/79	\$ —	\$ —	\$ 297,500*	\$ 297,500
1979/80	—	148,750*	148,750*	297,500
1980/81	—	148,750*	148,750*	297,500
1981/82	55,000	148,750	146,825	350,575
1982/83	60,000	146,825	144,725	351,550
1983/84	65,000	144,725	142,450	352,175
1984/85	70,000	142,450	140,000	352,450
1985/86	75,000	140,000	137,375	352,375
1986/87	80,000	137,375	134,575	351,950
1987/88	85,000	134,575	131,600	351,175
1988/89	90,000	131,600	128,450	350,050
1989/90	100,000†	128,450	124,950	353,400
1990/91	105,000†	124,950	121,275	351,225
1991/92	115,000†	121,275	117,250	353,525
1992/93	120,000†	117,250	113,050	350,300
1993/94	130,000†	113,050	108,500	351,550
1994/95	140,000†	108,500	103,600	352,100
1995/96	145,000†	103,600	98,525	347,125
1996/97	155,000†	98,525	93,100	346,625
1997/98	170,000†	93,100	87,150	350,250
1998/99	180,000†	87,150	80,850	348,000
1999/2000	195,000†	80,850	74,025	349,875
2000/01	205,000†	74,025	66,850	345,875
2001/02	220,000†	66,850	59,150	346,000
2002/03	235,000†	59,150	50,925	345,075
2003/04	255,000†	50,925	42,000	347,925
2004/05	270,000†	42,000	32,550	344,550
2005/06	290,000†	32,550	22,400	344,950
2006/07	310,000†	22,400	11,550	343,950
2007/08	330,000†	11,550	—	341,550
	\$4,250,000	\$2,959,950	\$3,108,700	\$10,318,650

* Funded from bond proceeds.

† Callable on or after July 1, 1988.

THE PROJECT

The City of Laguna Beach presently operates a sewage treatment plant which serves both city residents and residents of the unincorporated community of Emerald Bay. The plant was originally designed to provide secondary treatment, but because of increased demands on the system the waste water quality does not meet minimum standards established by the California Regional Water Quality Control Board. The city has elected to participate in the regional program being undertaken by the Aliso Water Management Agency. The project to be financed from proceeds of the Series A bonds consists of an interceptor system (called the North Coastal Interceptor), and the onshore and offshore portions of an ocean outfall system (called Aliso Creek Outfall).

The North Coastal Interceptor will convey untreated waste water from the City of Laguna Beach through a buried pipeline and two pump stations. The location of the pipeline commences at a new Laguna Pump Station to a Bluebird Canyon Pumping Station, and thence along the Coast Highway to Aliso Canyon. The Interceptor will thence convey the untreated waste water to the site upon which a new waste water reclamation plant will be constructed. The site is approximately 7,700 feet inland of the Coast Highway.

The Aliso Creek Outfall consists of onshore and offshore portions. The onshore portion consists of 7,700 feet of 48-inch diameter reinforced concrete pipe to carry effluent from treatment facilities to the ocean for disposal. The onshore portion extends southerly along the Aliso Creek stream bed, through the Laguna Beach Country Club and Golf Course, through an existing County parking lot where it connects with the offshore portion

of the Ocean Outfall, which presently is under construction. The offshore portion runs under the Coast Highway and through an existing County beach into the ocean and terminates approximately 8,000 feet beyond the shoreline in about 180 feet of water.

The capacity in the pipeline and the pumping stations to be leased to the City of Laguna Beach by the Aliso Water Management Agency is set forth with reference to the North Coastal Interceptor, including the pipelines, in the agreement dated November 4, 1976, entitled "Agreement for Design, Construction, Use, Operation, Maintenance, Repair, and Replacement of Phase I North Coastal Interceptor Sewer Pipeline and Pumping Stations for Aliso Water Management Agency for and on Behalf of Project Committee No. 7-A," and with reference to the Outfall, in the agreement dated September 24, 1976, entitled "Agreement for Acquisition of Capacity Construction, Use, Operation, and Maintenance of Outfall Facilities for Aliso Water Management Agency and for such Agency on Behalf of Project Committee No. 11-A." (Copies of these agreements are on file with the Secretary of the agency and the City Clerk.)

Permits and approvals from several Government agencies are required, and these permits have either been received or will have been received prior to delivery of the bonds. The California Regional Water Quality Control Board, San Diego Region, has established waste discharge requirements for the Ocean Outfall, and these requirements will be met on completion of the project. The necessary coastal zone permits have been obtained. Also, permits to construct the Ocean Outfall have been obtained from the Corps of Engineers, State Lands Commission, State Department of Transportation, and the Orange County Harbors, Beaches and Parks District. Additional permits have been granted by the County of Orange and Orange County Flood Control District.

During construction of the project being financed from bond proceeds, the Aliso Water Management Agency will enter into a contract to construct a new coastal treatment plant adjacent to that presently owned and operated by the South Coast County Water District. The new plant will be designed to accommodate initially up to 4.4 mgd of waste water and will serve the City of Laguna Beach and the Emerald Bay Service District. Eventually the plant will be expanded to accommodate up to 7.7 mgd to receive waste water from the Irvine Ranch Water District. Once this project is on-line, the City of Laguna Beach treatment plant and ocean outfall will be abandoned. The agency and the city presently anticipate a second bond issue of approximately \$3,500,000, to be sold in December, 1978. Bond proceeds will be used to finance the city's capacity in these plants and related facilities.

Construction Period and Liquidated Damages

Construction contract bids have been received for a portion of the North Coastal Interceptor and for the Aliso Creek Outfall, Onshore Portion. Bids for pumping facilities and the remainder of the North Coastal Interceptor have been advertised and will be opened on February 3, 1978. The contract for the offshore portion has been awarded and construction is underway. The offshore portion is expected to be completed in March, 1978 and the onshore portion is expected to be completed in September, 1978. If completion is not accomplished within the prescribed limitation, the contractor will be subject to liquidated damages. As additional security for the bondholders, interest will be funded for a 3-year period, and the first base rental payment will be due May 1, 1981 which is 10 months beyond the scheduled completion date.

Project Costs

Contract awards have been made to Peter Kiewit Sons' Company, Richmond, California, for the Ocean Outfall and to Vido Artukovich & Son, El Monte, California, for the onshore portion of the Ocean Outfall and Reach I of the Interceptor. The net project costs for the city's capacity for construction, contingencies, fees, incidentals, and funded interest are estimated at \$4,334,525, as shown in Table 4.

TABLE 4
PROJECT COSTS AND BOND ISSUE REQUIREMENT

Aliso Creek Outfall (onshore and offshore portions)*	\$1,160,000
North Coastal Interceptor*	1,623,000
Contingency	200,000
Project Costs	\$2,983,000
Funded interest (3 years)	\$ 892,500
Bond Reserve	353,525
Legal, financing, incidentals	105,500
Total All Costs	\$4,334,525
Less: Interest earned during Construction	84,525
Bond Issue Requirement	\$4,250,000

* Figures include engineering and related costs paid by city and to be reimbursed from bond proceeds.

Source: Aliso Water Management Agency and City of Laguna Beach.

Sewer Service Charges

It is the current policy of the city to use revenues obtained from sewer service charges to meet financial obligations which will occur under the facilities lease. This policy is consistent with Federal guidelines which require that local users pay their fair share to finance construction and additional capital recovery costs of the system.

In May, 1977, the city council adopted an ordinance raising sewer service charges to provide sufficient revenues to meet estimated debt service costs. The new rates for unimproved lots and residential property became effective on July 1, 1977 while commercial rates went into effect on August 1,

1977. Single-family property rates increased from \$2.75 to \$6.50 monthly with proportional increases for other types of property. These charges are levied as part of the County's property tax bill and, as such, are inseparable and due at the same time as property tax collections.

The new rates are expected to generate an additional \$400,000 annually above operations and maintenance costs to meet debt service and miscellaneous capital improvement costs. Table 5 presents the sewer service fund for 1972/73 through 1976/77 and the adopted budget for 1977/78. Without including the 1976/77 fund balance of \$218,700, revenues are expected to exceed expenditures by nearly \$400,000 in 1977/78 and would be available to meet debt service requirements.



Project site for the offshore portion of the Aliso Creek Outfall. From this site a 48-inch diameter reinforced concrete pipe will carry effluent approximately 8,000 feet beyond the shoreline in about 800 feet of water.

The city's finance officer estimates that the new rate structure will provide surplus revenue during the period of construction, during which interest has been capitalized. The surplus revenue will be available for capital improvements and will effectively reduce the bond issue requirement to finance the new coastal treatment facility.

Although the city intends to use sewer service revenue to meet debt service requirement, the city is obligated to use general funds to meet lease payments should sewer service revenue prove insufficient in any year.

TABLE 5
CITY OF LAGUNA BEACH
SEWER FUND*

	1972/73	1973/74	1974/75	1975/76	1976/77	Approved Budget 1977/78
REVENUES						
Clean water grant	\$ —	\$197,759	\$ —	\$ 46,312	\$ 37,069	\$ —
Waste management tax	29,004	2,466	—	—	—	—
Sewer service charges	167,145	227,034	258,925	294,109	298,847	750,000 [§]
Sewer disposal charges	20,000	24,210	25,657	27,506	24,882	25,000
Sewer reimbursement	2,476	—	—	—	—	—
Sewer connection charges	68,521	86,705	56,478	59,084	69,616	60,000
Miscellaneous	—	—	—	5,534	622	—
Total Revenues	\$287,146	\$538,174	\$341,060	\$432,545 [†]	\$431,036	\$835,000
EXPENDITURES AND ENCUMBRANCES						
Salaries and benefits	\$120,022	\$135,506	\$161,557	\$180,521	\$169,699	\$195,674
Supplies and services	57,680	73,996	73,101	80,737	82,088	125,990
Repairs and maintenance	5,255	4,206	6,332	5,112	46,394	8,050
Capital equipment	42,104	2,622	5,054	12,419	12,174	25,780
Aliso Water Management Assessment	39,898	49,517	144,824	17,886	14,339	8,250
Sewer plant improvement	14,321	234,307	40,611	1,478	4,006	—
Sewer pump stations	3,833	6,330	—	19,235	1,085	51,300
Victoria sewer main	—	—	6,465	—	—	—
Replace sewer lines	—	—	—	—	—	26,900
Total Expenditures and Encumbrances	\$283,113	\$506,484	\$437,944	\$317,388 [†]	\$329,785	\$441,944
NET INTERFUND TRANSFERS						
	\$ 20,197	\$ —	\$ —	\$ —	(\$ 2,049)	\$ —
ADJUSTMENTS						
	\$ 41,650	\$ 1,956 [‡]	\$ 43,349 [‡]	\$ —	\$ —	\$ —
EXCESS (DEFICIENCY) OF REVENUE, TRANSFERS AND ADJUSTMENTS OVER EXPENDITURES AND ENCUMBRANCES						
	\$ 65,880	\$ 33,646	(\$ 53,535)	\$115,157	\$ 99,202	\$393,056
BEGINNING FUND BALANCE						
	(\$ 41,650)	\$ 24,230	\$ 57,876	\$ 4,341	\$119,498	\$218,700
ENDING FUND BALANCE						
	\$ 24,230	\$ 57,876	\$ 4,341	\$119,498	\$218,700	\$611,756

* Table 5 reviewed by city's Finance Officer for consistency with audited financial statements.

[†] Total values differ from audit values because audited financial statements credited \$37,194 cancellation of prior year's encumbrance to revenues whereas this table subtracts that value from the reported sewer plant improvement expense item.

[‡] Cancellation of prior year's encumbrances.

[§] Increased sewer rates effective July 1, 1977 for residential customers and August 1, 1977 for commercial customers.

Source: Compiled from city's financial statements audited by Diehl, Evans and Company, Certified Public Accountants for 1972/73, 1973/74 and 1974/75; and from city's audited financial statements for 1975/76 and 1976/77; and from the city's approved annual budget for 1977/78.

CITY ORGANIZATION AND FINANCIAL DATA

The City of Laguna Beach, incorporated as a general law city in 1927, operates under the council-manager form of government. The voters of Laguna Beach elect five council members by popular vote on a non-partisan basis for staggered terms of four years. The council selects the mayor from among its members. The current city council includes Jon S. Brand, mayor; Sally R. Bellerue, mayor pro tem; John E. McDowell; Phyllis J. Sweeney; and Carl E. Johnson. The council enacts all local laws, approves the city budget, appoints city officials, and adopts the city tax rate.

Other elected officials include the city clerk, Verna L. Rollinger, and the city treasurer, Margaret F. Morreale. Council appointed city officials include the city manager, Alfred R. Theal, and the city attorney, George G. Logan.

Mr. Theal, formerly public works director for the city, has served as city manager since August 1973 and is responsible for carrying out the council's policies and selecting all other department heads. Department heads include Terry Brandt, assistant city manager, municipal services; Richard R. Reese, finance director; Douglas J. Schmitz, assistant city manager, planning; Jon J. Sparks, police chief; Charley J. Kuhn, fire chief; George C. Fowler, director of human affairs; and Bruce G. Baird, chief of marine safety.

The city has 177 full-time employees and provides community services through its planning department, fire and police departments, municipal services department, marine safety department, and the human affairs department.

The planning department, staffed by 9 full-time employees, is responsible for preparing the city's general plan. A five-member planning commission advises the city council on matters related to planning and development.

Thirty full-time officers and 10 volunteers man the city's fire department. Three stations are maintained and are equipped with resuscitators, modern pumper trucks, and other support vehicles. The city has a class 6 fire insurance rating provided by the Pacific Fire Rating Bureau. The Laguna Beach Police Department has 34 sworn officers, including the chief, and 26 civilian employees and 15 reserves. The Department of Marine Safety provides lifeguard protection to the city's five miles of beaches through three full-time employees augmented by 75 additional lifeguards during the summer season.

Under the terms of the public employees' retirement system of California, (P.E.R.S.), the city provides a retirement plan covering all full-time employees. According to P.E.R.S. the total city contribution to P.E.R.S. in fiscal year 1976/77 was \$275,098 accompanied by \$203,907 contributed by employees. The audit report for 1976/77 cites \$278,067 as the city's contribution to P.E.R.S., which includes accruals. The percentage of salary to be contributed in 1977/78 by the city will be 12.493% for safety employees and 9.840% for others, and the percentage of salary contributed by employees will be 5.87% to 11.86% for safety categories and 7% for others.

P.E.R.S. is required by state law to undergo a systems evaluation at least every four years. Periodic intervening checks of actuarial assumptions and other aspects of the system are also made. The June 30, 1976 audit of P.E.R.S. by Coopers & Lybrand, certified public accountants, reported an accrued actuarial liability and present value of benefits for active and inactive members totalling approximately \$14.6 billion. Assets available for benefits were placed at about \$7.9 billion, leaving an unfunded liability of about \$6.7 billion.

Upon completion of the 1975 systemwide evaluation, actuaries then determined that restoration and maintenance of the system's necessary balances required a three-step annual increase of 1% in the average percentage employer contribution beginning July 1, 1976.

Members of P.E.R.S. may elect to pool assets for benefits and unfunded liabilities or segregate their financial contributions and retirement commitments to the system. Following an actuarial study, the city determined they would realize a premium savings with increased benefits under separate accounting.

As of July 1, 1976, P.E.R.S. calculated that the City of Laguna Beach had a present value liability for all benefits for miscellaneous categories of \$4,726,676 with cash and credited assets of \$3,701,639, leaving an unfunded liability of \$1,025,037. The safety category had a present value liability for all benefits of \$5,168,458 with cash and credited assets totalling \$4,310,964, leaving an unfunded liability of \$857,494.

According to P.E.R.S., the city will amortize its unfunded liability until the year 2000 at a current rate of 2.544% of payroll for general categories and 3.168% of payroll for safety categories. These percentages are included in the percentage employer contributions for fiscal year 1977/78 quoted above.

Assessed Valuation

The City of Laguna Beach utilizes the facilities of Orange County for the assessment and collection of taxes for city purposes. City taxes are assessed and collected at the same time and on the same tax rolls as are county, school, and special district taxes. Assessed valuations of properties are established by the Orange County Assessor and are the same for both city and county taxing purposes. The State Board of Equalization reports that the 1977/78 Orange County assessed valuation averages 25.1% of market value while public utility property is assessed at 25% of full value.

The equalization process tends to assure that tax impacts will be uniform throughout the state. Maximum tax rates in counties which assess above the 25% level are reduced by the percentage proportionate to the percentage of over-assessment. Conversely, counties that under-assess may adjust maximum tax rates to yield income based on a relationship of assessed valuation equal to 25% of full-market value. Rates below the statutory maximums are not affected by the equalization process.

The valuation of secured property is established as of March 1 of each year, is subsequently equalized in August, and the first installment of taxes becomes payable the following November with the second installment

payable the following February. Taxes are due to be received by the Orange County Tax Collector on or before the delinquency dates of December 10 and April 10 for each installment. Taxes on unsecured property (personal property and leaseholds) are due by August 31 of each year based on the preceding fiscal year's secured tax rate.

Under amendments adopted in 1968 to the Constitution and Statutes of the State of California, two types of exemptions of property from ad valorem taxes were authorized beginning in the fiscal year 1969/70. The first of these exempts 50% of the assessed valuation of business inventories from taxation. The second provides for exemption of \$1,750 of the assessed valuation of an owner-occupied dwelling for which application has been made to the county assessor. Revenue estimated to be lost to local taxing agencies due to such exemptions is reimbursed from state sources.

Such reimbursement is based upon total taxes due upon such exempt values and therefore is not reduced by any amount for estimated delinquencies.

Table 6 presents a five year summary of assessed valuation for the city. The total assessed valuation for the city has more than doubled during the past five years with secured property growing 133% and unsecured property appreciating nearly 40%. Growth per year has averaged nearly 23%.

TABLE 6
CITY ASSESSED VALUATIONS

	Local Secured	Utility	Unsecured	Total Assessed Valuation for Revenue Purposes*
1973/74	\$ 67,267,548	\$3,167,720	\$2,941,750	\$ 73,377,018
1974/75	86,876,645	3,311,020	2,893,930	93,081,595
1975/76	103,035,315	3,433,730	3,140,500	109,609,545
1976/77	127,663,410	3,592,170	3,944,705	135,200,285
1977/78	156,806,150	3,911,750	4,066,570	164,784,470

* Before homeowners' and business inventory exemptions.
Source: County of Orange Auditor-Controller's Office.

Tax Rates, Levies, and Delinquencies

Table 8 lists the city's secured taxes levied, amount collected, and percent delinquent over the past five years. During this period, secured tax delinquencies have averaged approximately 2.4%. The aggregate of prior years' collections have erased delinquencies for the preceding year.

Table 7 presents the city's tax rate schedule for the past six years and a component breakdown for the current year's tax rate. During the six-year period the city tax rate has declined 23%. The city's current maximum legal tax rate is \$2.1245, excluding general obligation debt service. The maximum legal tax rate may be adjusted upward based on a formula that considers changes in population, assessed valuation, and the consumer price index.

TABLE 7
CITY TAX RATES AND
TAX RATE COMPONENTS

CITY TAX RATES	
Year	Rate
1972/73	\$2.066
1973/74	2.126
1974/75	2.026
1975/76	1.947
1976/77	1.650
1977/78	1.590
1977/78 TAX RATE COMPONENTS	
Fund	Rate
General	\$1.000
Retirement	.160
Park and Recreation	.240
Workers' Compensation Insurance	.080
Sewer Bond (G. O.)	.040
Paramedic Service	.070
Total	\$1.590

Source: City of Laguna Beach.

Table 9 lists the total tax rate for all taxing entities within the city's largest tax code area. Orange County tax code area 5003, with a \$7.4806 tax rate, has an assessed valuation for revenue purposes of \$158,612,190 for fiscal year 1977/78 which constitutes approximately 96% of the city's total assessed valuation. Tax code area 5025 has the next largest assessed valuation in the city (\$625,040) with a tax rate of \$7.3506.

The Agency has been made aware of an initiative measure entitled "Property Tax Limitation, Initiative Constitutional Amendment," which has qualified for a place on the ballot at the June 6, 1978, statewide election.

The Office of the Attorney General has provided the following summary of the measure:

PROPERTY TAX LIMITATION, INITIATIVE CONSTITUTIONAL AMENDMENT. Limits ad valorem taxes on real property to 1% of value except to pay indebtedness previously approved by voters. Establishes 1975-76 assessed valuation as base value of property for tax purposes. Limits annual increases in value. Provides for reassessment after sale, transfer, or construction. Requires $\frac{2}{3}$ vote of Legislature to enact any change in state taxes designed to increase revenues. Prohibits imposition by state of new ad valorem, sales, or transaction taxes on real property. Authorizes specified local entities to impose special taxes except ad valorem, sales and transaction taxes on real property. Financial Impact: Would result in the loss of local property tax revenues of \$7 billion to \$8 billion annually and a reduction in state costs of about \$700 million in 1978-79 and \$800 million annually thereafter.

If approved by the voters, the measure would substantially impair any use by the City of ad valorem taxes to provide it with funds with which to make rental payments as required by the public facilities lease. However, the City intends to make said rental payments with the proceeds from its sewer service charges and does not anticipate using ad valorem taxes for such purpose.

TABLE 8
CITY SECURED TAX LEVIES AND DELINQUENCIES

<i>Year</i>	<i>Secured Tax Levy</i>	<i>Amount Delinquent</i>	<i>Percent Delinquent</i>	<i>Prior Years' Collection</i>
1972/73	\$1,383,478	\$32,427	2.3%	\$24,630
1973/74	1,359,699	27,612	2.0	35,851
1974/75	1,683,127	42,550	2.5	25,082
1975/76	1,934,542	51,352	2.7	47,283
1976/77	2,043,788	48,577	2.4	63,734
1977/78	2,447,261	— IN COLLECTION —		

Source: County of Orange Auditor-Controller's Office.

TABLE 9
REPRESENTATIVE 1977/78 TOTAL TAX RATE WITHIN CITY*

<i>Taxing Entity</i>	<i>Tax Rate</i>
City of Laguna Beach	\$1.5900
Orange County General	1.3300
Orange County Library	0.1546
Orange County Cemetery	0.0055
Orange County Transit	0.0371
Orange County Flood Control	0.1888
Orange County Harbor, Beaches and Park District	0.1659
Laguna Beach Unified School District	2.0289
Laguna Beach County Water District	0.3150
Metropolitan Water District	0.1200
Vector Control District	0.0090
Saddleback Community College	0.9443
Other education purposes	0.5015
Total Tax Rate on All Property	\$7.3906
Laguna Beach Lighting District (land only)	\$0.0900
Total Tax Rate	\$7.4806

* Tax rate for tax code area 5003 which has an assessed valuation for revenue purposes of \$158,612,190 which constitutes 96% of the city's total assessed valuation.

Source: County of Orange Auditor-Controller's Office.

Major Taxable Property Owners

Table 10 lists property owners with highest assessed valuation in the city. Some of the property being indicated as being owned by the Irvine Company, the largest owner listed, may be owned by the Company in partnership or joint venture with others. The total assessed value for all Irvine property is less than 1.5% of the city's assessed valuation. The percentage contribution to the city's assessed valuation of the major taxable property owners ranges from 0.6% to 0.2%. The aggregated assessed valuation for all ten major property owners is approximately 4.5% of the city's total assessed valuation.

TABLE 10
1976/77 MAJOR TAXABLE PROPERTY OWNERS IN
THE CITY OF LAGUNA BEACH

<i>Property Owner</i>	<i>Activity</i>	<i>Assessed Valuation</i>
Irvine Company*	Residential development	\$2,333,710
Connecticut General Life Insurance	Commercial retail	977,880
Mr. John Dilts	Commercial retail	750,280
Ms. Margaret Russell	Residential vacant	725,020
Mr. Joseph Turner	Commercial lodging	605,750
Laguna Savings Federal and Loan	Commercial banking	490,830
Title Insurance & Trust Company	Various properties	449,430
Rancho Palos Verdes Corp.	Vacant undeveloped land	383,660
Mr. H. E. Howard	Commercial retail	336,320
Vacation Bay Hotel	Commercial lodging	307,290

* Includes a variety of partnerships.
Source: City of Laguna Beach.

General Fund

Table 11 presents the general fund statement of revenue, expenditures and encumbrances, and changes in fund balances for the last five years and the approved budget for the current fiscal year. The general fund is maintained on the modified accrual basis. Beginning in 1975/76 several special revenue funds were incorporated into the general fund. In order to allow a five-year comparison of fund balances, these special funds were added to the general fund for 1972/73 through 1974/75 which causes the totals in these earlier years to differ from the published financial statements accompanying the auditor's reports. The adjusted values have been reviewed for consistency with the published financial statements by the city's previous auditor.

During the last five years, total revenue has increased approximately 50% while expenses have risen approximately 48%. Over this period the property tax contribution has increased from 27% of total revenues in fiscal year 1972/73 to nearly 40% in 1977/78. Sales tax constitutes the next major revenue source. The category of greatest expense year-to-year is public safety which includes police and fire protection, animal regulation, emergency preparedness and a lifeguard contingent serving the five-mile public beach in Laguna Beach.

The annual budget for the city is approved by the city council following a six-month preparation and review period. The process begins in January of each year with financial statements being prepared by the finance staff. Department heads prepare budget requests during the next month which are then combined with revenue estimates provided to the public and the city council by April. During May and June the council holds public hearings before adoption of the final budget and the setting of the city tax rate in August of each year.

TABLE 11
CITY OF LAGUNA BEACH—GENERAL FUND^①

	1972/73	1973/74	1974/75	1975/76	1976/77	Adopted Budget 1977/78
REVENUES^②						
Property tax	\$1,001,662	\$1,307,553	\$1,789,481	\$2,052,316	\$2,170,285	\$2,555,783
Sales tax	530,295	560,653	592,869	663,541	773,979	835,000
Transient occupancy tax	159,285	174,178	190,512	210,161	258,328	270,000
Other taxes ^③	95,019	93,551	89,924	104,128	133,590	135,000
Business licenses	86,872	97,225	107,073	122,166	137,505	153,000
Franchises	42,075	45,012	51,696	60,024	62,787	69,000
Licenses and permits	111,120	130,732	107,062	93,041	105,069	97,700
Interest and rentals	182,674	269,282	262,015	253,213	285,681	280,750
Other agency income	15,657	13,314	16,119	45,750	3,544	16,500
Current services	135,581	163,101	169,412	200,438	264,203	223,500
Reimbursements	129,246	61,497	41,567	56,556	49,090	37,500
Development tax	68,665	51,443	31,245	43,823	46,162	33,000
Parking revenue	126,945	119,998	206,880	233,759	320,426	336,865
Grants ^④	586,862	615,296	563,932	423,370	186,128	583,800
Motor vehicle licenses	119,657	137,874	134,437	152,276	181,689	185,000
Refuse collection	150,388	180,942	190,729	249,846	267,510	256,000
Fines and penalties	129,705	90,048	95,921	192,218	209,349	210,000
Drainage improvement fund	—	—	13,500	1,040	9,740	—
Open space fund	—	—	— ^⑤	1,515 ^⑤	157 ^⑤	— ^⑤
Park fees fund	—	18,721	23,085	24,522	48,473	—
Total Revenues	\$3,671,708	\$4,130,420	\$4,677,459	\$5,183,703	\$5,513,695	\$6,278,398
EXPENDITURES AND ENCUMBRANCES						
General government	\$ 432,569	\$ 507,753	\$ 480,160	\$ 932,375 ^⑥	\$ 985,522	\$1,523,694
Public safety ^⑦	1,550,098	1,681,870	1,744,724	1,966,749	2,158,612	2,655,785
Planning and development	147,638	233,949	232,376	267,599	320,073	215,143
Recreation ^⑧	300,481	367,298	404,764	450,575	471,952	475,073
Community assistance	41,200	—	50,237	54,552	77,715	72,100
Public works	1,062,497	1,140,020	1,459,277	1,153,931	1,200,022	1,399,121
Total Expenditures and Encumbrances	\$3,534,483	\$3,930,890	\$4,371,538	\$4,825,781	\$5,213,896	\$6,340,916
NET INTERFUND TRANSFERS	\$ 137,961	(\$ 29,547)	\$ 83,273	\$ 296,457	\$ 76,768	\$ 158,500
EXCESS OF REVENUES AND TRANS- FERS OVER EXPENDITURES AND ENCUMBRANCES						
	\$ 275,186	\$ 169,983	\$ 389,194	\$ 654,379	\$ 376,567	\$ 95,982
BEGINNING FUND BALANCE	(\$ 16,425)	\$ 258,761	\$ 428,744	\$ 817,938	\$1,472,317	\$1,848,884
ENDING FUND BALANCE	\$ 258,761	\$ 428,744	\$ 817,938	\$1,472,317	\$1,848,884	\$1,944,866

① Table 11 reviewed by city's Finance Officer for consistency with audited financial statements.

② Beginning in 1975/76 the city's auditors included several special funds listed below into the General Fund. Those funds have been included into Table 11 for prior years for comparative purposes.

Development Tax—special tax levies against new construction used for park or other public improvements;

Parking Revenue—parking facility revenue and any special tax levies used for the operation, acquisition, and improvement of parking facilities;

Grants—receives grants from other governmental agencies prior to disbursement to receiving funds;

Refuse Collection—refuse service fees paid to independent contractor providing the refuse service;

Drainage Improvement—special tax levy used for the improvement of storm drainage systems;

Open Space—revenue, grants, and contributions committed to the acquisition of open space;

Park Fees—special tax levy used for the acquisition and improvement of public parks.

③ Other Taxes includes property transfer tax plus cigarette tax.

④ Fiscal year 1972/73 includes Clean Water Grant of \$22,890 subsequently transferred to the sewer fund in fiscal year 1973/74. Additional Clean Water Grant funds are recorded as direct revenue into the sewer fund and are not included in the general fund.

⑤ The Open Space Fund received \$70,880 in 1974/75, \$82,842 in 1975/76, \$133,278 in 1976/77 from Federal Revenue Sharing. In 1977/78 \$128,500 is expected from Federal Revenue Sharing. These amounts are included in the net interfund transfer totals for the respective fiscal year.

⑥ The nearly 100% increase in General Government expenditures is due to inclusion of C. E. T. A., P. E. P. and coastal planning expenses formerly apportioned to the benefitting department. Also, several acquisitions and improvements occurred including police facility additions and some property acquisitions.

⑦ Public safety category includes lease payments on the City of Laguna Beach Public Facilities Corporation Bonds, \$315,000 Principal Amount, dated December 1, 1967.

⑧ Recreation fund includes lease payments on the City of Laguna Beach Public Improvement Corporation Bonds, Series A, \$3,135,000 Principal Amount dated October 1, 1968; Series B, \$455,000 Principal Amount dated October 1, 1972; and Series C, \$495,000 Principal Amount dated October 1, 1973.

Source: Compiled from city's financial statements audited by Diehl, Evans and Company, Certified Public Accountants for 1972/73, 1973/74, and 1974/75; and from city's audited financial statements for 1975/76 and 1976/77; and from the city's approved annual budget for 1977/78.

Special Revenue Funds

Table 13 presents a statement of revenues, expenditures and encumbrances, transfers, and fund balances for the city's special revenue funds. The city maintains these funds on the modified accrual method of accounting, with the exception of the Municipal Transit Fund.

The Municipal Transit Fund was reported as a special revenue fund in the 1975/76 financial statements. In 1976/77 the Transit Fund was reclassified as an enterprise fund to more appropriately reflect the operations of the city's bus line resulting in the restatement of the financial statements for 1976. As an enterprise fund rather than a special revenue fund, the Transit Fund now follows the accrual basis of accounting rather than the modified accrual basis; that is, fixed assets are capitalized and depreciated rather than being accounted for as expenditures in the Transit Fund and recorded in the General Fixed Assets Group of Accounts; also, encumbrances are not recorded in the financial statements. Table 12 presents the statement of revenue and expenses for the Municipal Transit Fund for 1975/76 and 1976/77 on an enterprise basis.

The Gas Tax Fund revenues are derived from state collected gasoline taxes that are apportioned to the city based on population. Expenditures from this fund are solely for maintenance and construction of streets. The Street Lighting District Tax Fund receives allocations of Orange County property taxes for the installation and maintenance of street lights in specific areas of the city. The Sewer Service Fund has been maintained to account for all proceeds and operating costs of the city's sewer and waste treatment facilities. A more detailed depiction of the sewer service fund is presented in Table 5 on page 14. The Retirement Fund was formerly used to account for all city and employee contributions into

P.E.R.S. Since 1974/75, contributions have been accounted for by debiting the benefitting department and, as such, are no longer separately reported. Page 15 discusses city and employee contribution ranges anticipated this fiscal year, as well as an actuarial summary concerning P.E.R.S.

TABLE 12
CITY OF LAGUNA BEACH
MUNICIPAL TRANSIT FUND*

	1975/76	1976/77
OPERATING REVENUE		
Passenger fees	\$ 56,061	\$ 65,897
Total Operating Revenue	\$ 56,061	\$ 65,897
NONOPERATING REVENUE		
Local Transportation Fund	\$169,205	\$ 66,484
Orange County Transit District	32,000	26,155
General Fund	55,226	39,996
Total Nonoperating Revenue	\$256,431	\$132,635
Total Revenue	\$312,492	\$198,532
OPERATING EXPENSES		
Salaries and wages	\$119,538	\$123,827
Materials and supplies	30,834	37,486
Administration	19,866	19,996
Net depreciation	4,255	3,755
Other	9,935	14,664
Total Expenses	\$184,428	\$199,728
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	\$128,064	(\$ 1,196)
RETAINED EARNINGS AT BEGINNING OF YEAR	(\$ 8,441)	\$119,623
RETAINED EARNINGS AT END OF YEAR	\$119,623	\$118,427

* Reported as an enterprise fund following the accrual basis of accounting.
Source: Compiled from 1976/77 annual audit.

TABLE 13
CITY OF LAGUNA BEACH
SPECIAL REVENUE FUNDS*

<i>Fiscal Year</i>	1972/73	1973/74	1974/75	1975/76	1976/77	<i>Approved Budget 1977/78</i>
REVENUES						
Gas tax	\$163,038	\$180,420	\$164,426	\$160,001	\$173,479	\$312,500
Street lighting district tax	108,256	108,848	96,584	101,119	94,780	91,803
Sewer service charges	287,146	538,174	341,060	432,545	431,036	835,000
Municipal transit†	38,941	50,160	67,136	—	—	—
Retirement contributions‡	176,666	181,827	—	—	—	—
EXPENDITURES AND ENCUMBRANCES						
Gas tax improvements	\$ 76,137	\$319,922	\$214,305	\$103,979	\$ 79,425	\$330,756
Street lighting district costs	77,809	79,176	83,190	87,572	88,036	97,166
Sewer service costs	283,113	506,484	437,944	317,388	329,785	441,944
Municipal transit costs	111,204	167,233	149,447	—	—	—
NET INTERFUND TRANSFERS AND ADJUSTMENTS§						
Gas tax fund	(\$ 40,377)	(\$ 3,690)	(\$ 87,411)	(\$ 89,340)	(\$ 32,726)	(\$ 80,000)
Street lighting district fund	9,939	—	—	—	(6,250)	—
Sewer service fund	20,197	1,956§	43,349§	—	(2,049)	—
Municipal transit fund	98,267	81,969	172,617	—	—	—
Retirement fund	(173,457)	(181,828)	(5,933)†	—	—	—
ENDING FUND BALANCES						
Gas tax fund	\$461,794	\$318,602	\$181,312	\$147,994	\$209,322	\$111,066
Street lighting district fund	(3,263)	26,409	39,803	53,350	53,844	48,481
Sewer service fund	24,230	57,876	4,341	119,498	218,700	611,756
Municipal transit fund	26,004	(9,100)	81,206	—	—	—
Retirement fund	5,934	5,933	—	—	—	—

* Table 13 reviewed by city's Finance Officer for consistency with audited financial statements.

† Municipal Transit Fund reclassified as an enterprise fund in 1976/77 with 1975/76 transactions appropriately restated.

‡ Retirement fund contributions were disaggregated in 1974/75 and collected from city departments by employee category and accounted for in the general fund.

§ Values presented in this section are all interfund transfers except for the sewer service fund category amounts reported for fiscal years 1973/74 and 1974/75 which are cancelled prior year's encumbrances and are recorded as adjustments.

Source: Compiled from city's financial statements audited by Diehl, Evans & Company, Certified Public Accountants for 1972/73, 1973/74, and 1974/75; and from city's audited financial statements for 1975/76 and 1976/77; and from the city's approved annual budget for 1977/78.

TABLE 14
CITY OF LAGUNA BEACH
BALANCE SHEET—ALL FUNDS AND GROUPS OF ACCOUNTS*
JUNE 30, 1977

	<i>General Fund</i>	<i>Special Revenue Funds</i>	<i>Debt Service Fund</i>	<i>Municipal Transit Fund</i>	<i>Trust and Agency Funds</i>
ASSETS					
Cash and short-term investments†	\$1,386,108	\$497,410	\$59,183	\$ 78,311	\$169,928
Taxes receivable	38,609	1,788	1,419		
Accounts receivable		6,434			
Accrued interest and other receivables	6,069				
Due from other governments	724,000	68,899		154,347	29,421
Due from other funds	16,034				
Deposits and other assets	1,753				
Long-term investments	74,678				
Fixed assets				151,212	
Amount available and to be provided for payment of general long-term debt					
	\$2,247,251	\$574,531	\$60,602	\$383,870	\$199,349
LIABILITIES, RESERVES AND FUND BALANCE OR RETAINED EARNINGS					
Liabilities:					
Accounts payable	\$ 64,224	\$ 18,148	\$ 7,148	\$ 452	\$ 284
Accrued expenses	182,393	6,870		5,731	113,240
Deposits					
Due to other funds					
Unexpended capital grants				120,000	
General long-term debt payable					
Total liabilities	\$ 246,617	\$ 25,018	\$ 7,148	\$126,183	\$113,524
Reserve for deferred compensation	\$ 74,678				
Reserve for encumbrances outstanding	77,072	\$ 67,647			
Investment in general fixed assets				\$139,260	
Capital grants					
Fund balance					
Appropriated	17,518		\$53,454		\$ 85,825
Unappropriated	1,831,366	481,866			
Retained earnings				\$118,427	
	\$2,247,251	\$574,531	\$60,602	\$383,870	\$199,349

* Table 14 reviewed by city's Finance Officer for consistency with audited financial statements.

† Investments, consisting of time deposits and certificates of deposit, are stated at cost which approximates market value. As a matter of policy, the city maintains one general bank account to maximize investment yields. Return from the investments are allocated to the respective sources as required by law.

‡ General fixed assets are recorded as expenditures in the respective funds at the time of purchase and are capitalized at original cost as determined by an independent appraiser. Gifts are recorded at fair market value at the time received. No depreciation has been provided on general fixed assets.

§ General long-term debt includes principal outstanding for the 1957 General Obligation Sewer Bonds and payments due on non-cancelable leases between the city and two Nonprofit Corporations.

Source: Compiled from city's audited financial statements for 1976/77.

Balance Sheet

Table 14 presents the balance sheet for all city funds and groups of accounts for the last fiscal year.

Trust and agency funds include the Deposit Trust Fund in which the city receives performance bonds or other miscellaneous deposits which are refundable upon the completion and approval by the city of the contracted

	<i>Special Assessment District Funds</i>	<i>General Fixed Assets Group of Accounts‡</i>	<i>General Long Term Debt Group of Accounts§</i>
ASSETS			
Cash and short-term investments	\$101,281		
Taxes receivable			
Accounts receivable			
Accrued interest and other receivables			
Due from other governments			
Due from other funds			
Deposits and other assets			
Long-term investments			
Fixed assets		\$12,616,270	
Amount available and to be provided for payment of general long-term debt			\$3,280,100
	\$101,281	\$12,616,270	\$3,280,100
LIABILITIES, RESERVES AND FUND BALANCE OR RETAINED EARNINGS			
Liabilities:			
Accounts payable	\$ 44,015		
Accrued expenses	967		
Deposits			
Due to other funds	16,034		
Unexpended capital grants			
General long-term debt payable			\$3,280,100
Total liabilities	\$ 61,016		\$3,280,100
Reserve for deferred compensation			
Reserve for encumbrances outstanding	\$ 28,432		
Investment in general fixed assets		\$12,616,270	
Capital grants			
Fund balance			
Appropriated	11,833		
Unappropriated			
Retained Earnings			
	\$101,281	\$12,616,270	\$3,280,100

project; the Act Five Deposit Trust Fund in which the city receives and makes disbursements concerning a parking lot operated by the city on behalf of property owners operating concessions at the Summer Festival which is held annually in the city for six weeks during July and August; and the Federal Revenue Sharing Fund which accounts for receipt and disbursement of funds received pursuant to the State and Local Fiscal Assistance Act of 1972.

The Assessment District Fund accounts for bond proceeds and construction costs for public improvements benefitting specific property owners. Bonds issued for improvements in special assessment districts are liabilities of the property owners and are secured by liens against the assessed property. The City Treasurer acts as an agent for collection of principal and interest payments by the property owners and remittance of such monies to the bondholders. The city has no liability nor obligation regarding these assessment district bonds. The city's general fund has advanced monies to the special assessment district funds pending the issuance of bonds.

General fixed assets were not specifically accounted for prior to 1975/76. In 1976, the city engaged an independent appraisal company to identify and determine the original cost of all property owned by the city. The cost included in the General Fixed Assets Group of Accounts represents the estimated original cost as determined in the December 5, 1975, appraisal report, plus the actual cost of assets acquired subsequent to that date.

Pending Litigation

The city is a defendant in certain actions filed by landowners claiming, among other matters, inverse condemnation damages, civil rights violations and breach of contract. In the aggregate, these actions claim damages approximating \$19,500,000 plus reasonable attorneys' fees.

In addition, the city is a defendant in other lawsuits arising in the ordinary course of operations which allege liability on the part of the city connected with matters of environmental control, civil rights, inverse condemnation and general liability.

Except with respect to liability arising out of inverse condemnation, any such liability (to a maximum of \$5,000,000), would be covered by insurance policies maintained by the city. To the extent that any such liability either exceeded \$5,000,000 or arose out of inverse condemnation, the city would be permitted to levy a tax at a rate in excess of the otherwise applicable maximum legal rate (except as that rate would be fixed in the event the initiative discussed on page 17 hereof were to be approved by the voters) to pay the judgment and may be permitted to make such payments over a period of up to ten (10) years.

It is the opinion of the city attorney that it is improbable that the outcome of the above litigation would be materially adverse to the city.

Direct and Estimated Overlapping Bonded Debt

A statement of direct and estimated overlapping bonded debt applicable to the city is presented in Table 15. In 1957 the voters of Laguna Beach authorized the issuance of \$1,300,000 general obligation sewer bonds. Later that year, the city issued the entire authorized amount to finance additions and improvements to the city's sewage collection, treatment, and disposal system. Of this amount, \$350,000 is currently outstanding.

The city is also involved in two non-cancelable leases with nonprofit corporations. On June 1, 1969, the city leased two fire stations from the City of Laguna Beach Public Facilities Corporation for a base semi-annual payment of \$13,627 plus additional rental equal to actual costs of the corporation, if any. The bond issue has a principal amount outstanding as of December 2, 1977 of \$205,000. Bonds mature each year on December 1 through 1987.

On October 1, 1968, the city leased approximately 6 acres of beach property known as the Main Beach Park from the City of Laguna Beach Public Improvements Corporation for a base semi-annual payment of \$150,634 plus associated expenses. This lease pertains to three series of bonds issued by the Corporation with an outstanding principal amount of \$3,590,000 as of October 2, 1977. Bonds in each series mature October 1 each year through 1998.

The Nonprofit Corporation Bonds are not a debt, liability, nor obligation of the City of Laguna Beach but are instead secured solely by the Facilities Lease obligating the city to pay each year's rental during the term of the lease. The city further covenanted to budget the appropriate amounts to honor the debt and maintain current accounting records of the transactions pertaining to the leases and have them audited annually by an independent certified public accountant.

TABLE 15
CITY DIRECT AND ESTIMATED OVERLAPPING BONDED DEBT*

1977 population estimate	16,750
1977/78 assessed valuation	\$164,784,470 [†]
Estimated market value	\$656,570,000 [‡]

<i>Entity</i>	<i>Percent Applicable</i>	<i>Debt Applicable February 8, 1978</i>
Orange County	1.653%	\$ 62,979 [§]
Orange County Building Authorities	1.653	385,298
Orange County Flood Control District	1.653	325,806
Metropolitan Water District	0.327	1,739,827
Saddleback Community College District	7.768	459,477
Laguna Beach Unified School District	65.096	1,549,285
City of Laguna Beach	100.	350,000
City of Laguna Beach Lease-Revenue Bonds	100.	8,045,000 [¶]
Emerald Bay Community Services District	0.299	389
Irvine Ranch Water District	0.088	6,468
Moulton-Niguel Water District	0.445	22,651
Moulton-Niguel Water District Irrigation District No. 4A	0.057	1,055
Total Direct and Overlapping Bonded Debt		\$12,948,235

	<i>Ratio to</i>		
	<i>Assessed Valuation</i>	<i>Estimated Market Value</i>	<i>Per Capita</i>
Assessed valuation	—	—	\$9,838
Direct bonded debt	5.09%	1.27%	501
Direct and overlapping bonded debt	7.86%	1.97%	773

Share of Authorized and Unsold Bonds:

Metropolitan Water District	\$1,193,550
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* Compiled by California Municipal Statistics, Incorporated.

† Before homeowners' and business inventory exemptions.

‡ The State Board of Equalization reports that the 1977/78 Orange County assessed valuation averages 25.1% of market value with public utilities assessed at 25% of market value.

§ Excluding \$24,229 applicable share of \$1,465,738 Orange County Lease-purchase obligations.

¶ Including \$4,250,000 to be sold February 8, 1978.



THE CITY AND VICINITY

The City of Laguna Beach is a residential community located on the Pacific coastline 50 miles south of Los Angeles and 70 miles north of San Diego. The city is bounded by beach for about five miles and consists of 3,328 acres situated in southern Orange County. Originally settled in the late 1800's the city has gradually become known as an artists' colony and popular tourist area because of its location, scenic surroundings, and Mediterranean-type climate.

The city is well-known for its summer artistic events. The Festival of Arts, which began over 40 years ago, provides a forum for the talents of several hundred artists. The Pageant of the Masters is a tribute to the achievements of famous painters and sculptors during which their works are replicated as real-life exhibits. These cultural attractions, coupled with the physical attributes of the coastline setting, distinguish Laguna Beach as offering unusual recreation opportunities throughout the year.

Population Characteristics

Table 16 presents the population history for the City of Laguna Beach and Orange County. Since its incorporation, the population of the city has expanded eight-fold while the county's has increased fifteen times. The growth rate for the preceding seven years has moderated to 15% for the city and 24% for the county. The median age of Laguna Beach residents, according to a 1976 Special Census, is 31 years, compared to 27.1 years countywide.

According to the 1977 Survey of Buying Power prepared by Sales Marketing Management, the median household effective buying income for county residents is \$16,652, compared to a statewide average of \$14,299.

Employment and Economic Development

Since the early 1950's Orange County's economy, once agriculturally oriented, has experienced substantial development and diversification.

Initially the county's manufacturing base centered in highly technical and specialized defense-oriented industries; however, in recent years, substantial expansion has taken place in diversified industries such as machinery, metals, rubber and plastics, paper products, and electronics. This has helped the county to evolve into an important manufacturing center that serves regional, national, and international markets.

The present distribution of employment in the county is shown in Table 17. The diversity of the county's economic base is indicated by the substantial employment in manufacturing, trade, government, and service industries. As of October, 1977, Orange County, with a total civilian labor force of 873,600 persons, had a seasonally adjusted unemployment rate of 4.3%.

The City of Laguna Beach is essentially a residential community with a reputation as an excellent vacation and recreation area. The largest local employer, the South Coast Community Hospital, is located a few miles south of the city in the incorporated community of South Laguna. It is served by a staff of about 180 physicians and surgeons who practice in the area, and employs on a full- or part-time basis approximately 450 people.

The City of Laguna Beach and adjacent areas in southern Orange County have shared in the overall development that has taken place in the county. Major focal points of such development are the Irvine Industrial Complex around Orange County Airport, Newport Center, and the University of California at Irvine. These developments, which provide a substantial economic base for all of southern Orange County, are within a short commute distance to the city.

The Irvine Industrial Complex covering more than 6,000 acres, is one of the largest planned industrial complexes in the nation. Its proximity to the western market, the abundance of professional and blue-collar workers, and the conducive atmosphere for a balanced industrial-residential community are the main reasons advanced by companies for locating in the area. Already more than 800 companies have located manufacturing and office facilities totalling 20 million square feet and employing approximately 40,000 persons. The complex is bounded by three major freeways, service is available from two railroads, and Orange County Airport is located in the center of the complex.

TABLE 16
POPULATION STATISTICS

<i>April 1</i>	<i>City of Laguna Beach</i>	<i>Orange County</i>
1930	1,981	118,674
1950	6,661	216,224
1970	14,550	1,420,386
1977	16,750	1,768,000

Source: 1930, 1950, and 1970 figures from U. S. Bureau of Census; 1977 figures estimated by State Department of Finance.

The most important development affecting commercial activity in the southern Orange County coastal area is Newport Center, a 622-acre financial, commercial and cultural center developed by the Irvine Company, which opened in September 1967. In addition to a 75-acre commercial complex, the center contains high-rise office buildings, including the \$10,000,000 AVCO Financial Center.

The Irvine Campus of the University of California is located on a 1,510-acre site approximately 10 miles from the city. The University began operations in 1965 as a general campus to provide undergraduate and graduate instruction; post-doctorate programs; teacher education; instruction in professional fields; and execution of basic and applied research. The University currently offers employment to over 6,000 persons. Table 18 lists the major employers in Orange County, all within 30 minutes' commute from Laguna Beach.

The U.S. Marine Corps Air Station at El Toro encompasses 4,607 acres and includes facilities for the advanced training of airmen for combat preparedness. Personnel at the air station consist of approximately 12,000 military and 1,650 civilian employees. The 1976 payroll exceeded \$80 million.

TABLE 17
ORANGE COUNTY
TOTAL EMPLOYMENT AND UNEMPLOYMENT RATE
OCTOBER, 1977

<i>Industry</i>	<i>Employment</i>
Manufacturing	169,300
Mining	2,100
Construction	42,000
Transportation and Public Utilities	20,000
Wholesale and Retail Trade	160,000
Finance, Insurance and Real Estate	37,000
Services	120,300
Government	102,400
Total Non Agricultural Employment	653,100
Total Agricultural Employment	9,200
Total Civilian Labor Force	873,600
Total Unemployment	35,600
Seasonally Adjusted Rate	4.3%

Source: State of California Employment Development Department.



Commercial activity in the City of Laguna Beach provides substantial revenue to the city. In 1976/77 sales tax income amounted to nearly 15% of total general fund revenues.

TABLE 18
ORANGE COUNTY MAJOR EMPLOYERS, 1977

<i>Firm</i>	<i>Service or Product</i>	<i>City</i>
Employee Range Over 5,000		
Hughes Aircraft Company, GSG	Radar data systems	Fullerton
McDonnell-Douglas Astronautics Company	Space systems	Huntington Beach
Rockwell International, Autonetics Division	Electronic systems	Anaheim
University of California	Education	Irvine
Employee Range 3000-4999		
Alpha Beta Company	Retail groceries and miscellaneous	La Habra
Bank of America, NT & SA	Banking	Orange
Beckman Instruments, Inc.	Electronic Instruments	Fullerton
Disneyland	Entertainment	Anaheim
Fluor Engineering and Construction, Southern California Division	Engineering and construction	Irvine
Lucky Stores	Grocery products	Buena Park
Employee Range 2000-2999		
Aeronutronic Ford Corporation	Aerospace parts	Newport Beach
Albertsons Food Centers, Incorporated	Retail grocery	Fullerton
California State University	Education	Fullerton
Far West Service Incorporated	Restaurants	Irvine
Knott's Berry Farm	Amusement	Buena Park
Market Basket	Grocery markets	*
Northrop Corporation, Electro-mechanical Division	Aerospace parts	Anaheim
Ralphs Grocery Company	Retail groceries	*
Smith International	Rockbeds for oil drilling	Newport
Employee Range 1000-1999		
Aerojet General Corporation	Nuclear reactors	Fullerton
Bertea Corporation	Hydraulic valves	Irvine
California Computer Products, Inc.	Disc drives	Anaheim
Carl Karcher Enterprises	Restaurants	Anaheim
Collins Radio Corporation	Communications systems	Newport Beach
Emhart Corporation, Kwikset Division	Hardware	Anaheim
Executive Industries	Motor homes	Anaheim
Fairview State Hospital	Health care	Costa Mesa
Hoag Memorial Hospital	Health care	Newport Beach
Holmes & Narver Incorporated	Consulting engineers	Anaheim
Hughes, Micro Electronics Division	Micro electronics	Newport Beach
Hunt-Wesson Foods	Food products	Fullerton
ITT Cannon Electric	Electrical connectors	Santa Ana
Interstate Electronics Corporation	Missile instrumentation	Anaheim
Kirkhill Rubber Company	Rubber products	Brea
McGaw Laboratories	Intravenous sets	Irvine
Pacific Mutual Life Insurance Company	Insurance	Newport Beach
Parker Hannifin Company	Hydraulic valves, missiles	Irvine
Rockwell International, Space Division	Aerospace manufacturing	Seal Beach
St. Joseph Hospital	Health care	Orange
St. Jude Hospital	Health care	Fullerton
Santa Ana College	Education	Santa Ana
Southern California Edison Company	Electric power supplies	Santa Ana
Thrifty Drug Stores Incorporated	Drug and retail stores	*
USI Incorporated	Plastic molding	Fullerton
Walker & Lee Incorporated	Real estate	Anaheim

* Located throughout Orange County.

Source: Orange County Chamber of Commerce Publication, "Orange County's Golden 500".

Utilities

Electricity and natural gas are supplied by the Southern California Edison Company and the Southern California Gas Company. General Telephone Company provides telephone service to Laguna Beach.

The city residents purchase water distributed by the Laguna Beach County Water District which is supplied by the Metropolitan Water District. The district has a transmission capacity of 21.35 cubic feet per second with a local storage capacity of 20,000,000 gallons and an average consumption of 3,300,000 gallons per day. An additional 30,000,000 gallons storage is available to the district from the San Joaquin Reservoir. The current

water shortage in California has not, as yet, had a significant effect on district operations. The Metropolitan Water District has imposed a surcharge on water consumption in excess of 90% of last year's rate that has been passed on to local water suppliers. The district has asked for a voluntary reduction in water consumption and has experienced between a 12% to 15% decrease in water use. No other rationing provisions have been enacted to date.

Sewer service is currently provided by the city of Laguna Beach. Refuse collection is contracted through a private firm.

Community Services

Laguna Beach maintains its own police and fire departments staffed by 30 and 34 full-time professionals, respectively. The public beaches are protected by a lifeguard contingent fully-activated during the summer season.

Health care facilities are located in nearby South Laguna at the South Coast Community Hospital. Erected as a community-owned enterprise on a 22-acre site in 1959, it has been expanded from a 75-bed facility to a present licensed capacity of 263 beds, representing a replacement value in excess of \$25 million. The hospital is currently staffed by about 180 physicians and surgeons. In addition to acute general care, the hospital also offers around-the-clock emergency and out-patient services.



Several lodging houses situated along the coastline provide guests with spectacular views and generate additional revenues to the city through transient occupancy taxes.

Commercial Activity

Several significant shopping centers are located within the city that provide commercial services to residents and tourists. The Forest Avenue and Lumberyard Mall is located in the city's central business district and consists of 50 to 60 specialty shops. The Village Fair and Art Center is located in the southern section of the city adjoining South Coast Highway. This center is made up of approximately 70 shops and includes restaurants and art galleries. Numerous specialty shops, malls, restaurants and related developments are located throughout the city creating, in effect, a citywide shopping center with regional appeal. Table 19 presents the taxable transactions and number of sales permits in the city for the last six years. In 1976 retail sales constituted 85% of all taxable transactions. Over the past six years, commercial activity has increased nearly 55%.

Recreational Facilities

Exceptional recreational facilities are available to residents of the city and other south coast communities in Orange County. The warm climate, resort-like atmosphere of the coastal area, and the Pacific Ocean itself, provide numerous opportunities for varied recreational pursuits. Nearby attractions include Disneyland, Knott's Berry Farm, Anaheim Stadium, Lion Country Safari and the San Juan Capistrano Mission, all within 25 miles of the city.

The city's Municipal Services Department maintains public beaches and Heisler Park which offers lawn bowling, shuffleboards, barbecues, volleyball courts and basketball courts.

TABLE 19
CITY OF LAGUNA BEACH
TAXABLE SALES AND SALES PERMITS

Year	Taxable Transactions	Sales Permits
1971	\$43,039,000	817
1972	47,534,000	863
1973	51,443,000	908
1974	53,450,000	974
1975	58,117,000	1,123
1976	66,657,000	1,174

Source: State Board of Equalization, annual summaries of *Trade Outlets and Taxable Sales in California*.

TABLE 20
CITY OF LAGUNA BEACH
1976 TAXABLE TRANSACTIONS

Type	Number of Permits	Taxable Transactions
Retail Stores		
Apparel stores	67	\$ 4,656,000
General merchandise stores	12	873,000
Drug stores	5	834,000
Food stores	22	4,616,000
Packaged liquor stores	8	1,908,000
Eating and drinking establishments	54	13,189,000
Home furnishings and appliances	57	4,414,000
Building materials and farm implements	10	4,682,000
Auto dealers and auto suppliers	7	5,953,000
Service stations	12	4,297,000
Other retail stores	194	11,093,000
Total Retail Stores	448	\$56,515,000
All Other Outlets	726	\$10,142,000
Total All Outlets	1,174	\$66,657,000

Source: State Board of Equalization, annual summaries of *Trade Outlets and Taxable Sales in California*.



Building Activity

Since the city first incorporated in 1927 with 1.1 square miles of land, subsequent annexations have increased the size of the city to a current 5.2 square miles. Building activity on original and more recently annexed real estate has increased over 50% during the last 15 years bringing the total number of residential housing units to 8,760. Building activity in the city for the past five years has approached nearly \$50 million dollars in total valuation. Of this amount, residential valuation accounts for over 80%. During the past five years single family unit construction has continued to significantly outpace multi-family unit construction.



Private beaches make up approximately 20% of the Laguna Beach shoreline. Homes situated along the waterfront command premium prices.



Originally settled in the 1800's as an artists' colony, the city still enjoys a reputation as a center for active creative arts.

TABLE 21
CITY OF LAGUNA BEACH
NEW CONSTRUCTION VALUATION

	1972	1973	1974	1975	1976	Through October, 1977
Single-family	\$4,654,000	\$ 5,792,000	\$ 8,239,000	\$6,700,000	\$5,918,000	\$7,219,000
Multi-family	1,699,000	884,000	434,000	—	1,304,000	511,000
Other residential	565,000	818,000	733,000	954,000	1,071,000	1,402,000
Total Residential	\$6,918,000	\$ 7,494,000	\$ 9,406,000	\$7,654,000	\$8,293,000	\$9,132,000
Commercial	\$ 384,000	\$ 1,838,000	\$ 1,942,000	\$ 302,000	\$ 216,000	\$ 217,000
Industrial	10,000	—	—	94,000	98,000	—
Other commercial and industrial	422,000	675,000	1,050,000	806,000	979,000	485,000
Total Commercial and Industrial	\$ 816,000	\$ 2,513,000	\$ 2,992,000	\$1,202,000	\$1,293,000	\$ 702,000
Total Valuation	\$7,734,000	\$10,007,000	\$12,398,000	\$8,856,000	\$9,586,000	\$9,834,000
Number of building permits						
Single-family	130	152	170	111	91	99
Multi-family	90	40	14	—	27	9
Total New Units	220	192	184	111	118	108

Source: Security Pacific Bank, *California Construction Trends*.

Educational Facilities

The City of Laguna Beach is served by the Laguna Beach Unified School District which operates three elementary schools, one intermediate, and one high school presently attended by a total of approximately 3,500 students. The school district reports that elementary through high school Laguna Beach students average in the top 10% on the annual state required testing program. One private elementary school serving approximately one hundred students is also located in Laguna Beach.

The University of California at Irvine serves nearly 9,000 full-time students with extension course attendance, both adult and evening, exceeding 7,000. Faculty has increased from slightly over 100 when the University opened in 1965 to a current staff of over 600. The College of Medicine, one of eight medical schools in California, was moved to the campus from Los Angeles in 1968 and serves over 300 medical students and has nearly 600 residents and interns. The medical school was expanded on July 1, 1976 with the addition of the University of California Irvine Medical Center located in the City of Orange, which the university acquired from Orange County.

Other institutions of higher education in Orange County which are conveniently accessible to city residents include four community colleges: California State College, Fullerton; Chapman College; Western State University College of Law, Fullerton; and Pepperdine University College of Law, Anaheim.

Transportation

The city has convenient access to the San Diego and Santa Ana freeways via Laguna Canyon Road and connections to the San Diego and Newport freeways via Coast Highway. Bus service to Los Angeles and San Diego is available at the Greyhound and Continental terminals located in the city. The Orange County Transit District provides bus service to Santa Ana, the county seat. In addition, the city operates its own municipal bus service linking a seven-mile stretch along Coast Highway. The current fleet consists of 6 mini-buses, two trams, two new vans and one Vintage Tram. Although Laguna Beach does not have railroad facilities within the city, Amtrak, offering passenger services, has a platform in San Juan Capistrano located 10 miles away. Air passenger and freight service is available at nearby Orange County Airport which is served by Air California, Hughes Air West and Golden West Airlines. Long Beach Municipal Airport and Los Angeles International Airport are located just off the San Diego freeway about an hour's drive from the city.

The Festival of Arts, which began over 40 years ago, provides a forum for the talents of several hundred artists.



PUBLIC FACILITIES LEASE

THIS LEASE dated for convenience as of January 1, 1978, by and between the ALISO WATER MANAGEMENT AGENCY (herein called "Agency"), a public entity and agency, duly organized and existing pursuant to an agreement entitled "Joint Exercise of Powers Agreement Creating Aliso Water Management Agency", as amended, and the CITY OF LAGUNA BEACH, CALIFORNIA (herein called "City"), a municipal corporation.

WITNESSETH:

That for and in consideration of the mutual promises and agreements herein contained, the parties hereto agree as follows:

SECTION 1. *Definitions.*

Unless the context otherwise requires, the terms defined in this Section 1 shall, for all purposes of this Lease, have the meanings herein specified.

Agreement

"Agreement" means that certain Agreement entitled: "Joint Exercise of Powers Agreement Creating Aliso Water Management Agency", as amended, under and pursuant to which the Agency has been organized, dated for convenience as of March 1, 1972.

Base Rental

"Base Rental" means the total rental due for the Project when completed, but does not include Additional Rental.

Bonds

"Bonds" means the revenue bonds to be issued by the Agency under and pursuant to the Resolution.

Construction Contract

"Construction Contract" means the construction contracts providing for the construction of the Public Improvements of Which the Facilities Will Be a Portion, including, without limitation, the plans and specifications, any addenda thereto, and other construction documents, a copy of each of which is or will be on file in the office of the Secretary of the Agency and the City Clerk of the City.

Facilities

"Facilities" means undivided interest in, and portions of the ownership capacity in and of, those certain facilities for the collection, transmission, treatment, reclamation, reuse, disposal, and/or management of wastewater being constructed, or proposed to be constructed, by the Agency, as hereinafter described, the extent of which undivided interests and portions of ownership capacity

are each equal, as percentages of the totals thereof, to the percentages of ownership capacity in said facilities allocated to the City by those certain Agreements entitled and dated for convenience as follows:

(a) "Agreement for Acquisition of Capacity Construction, Use, Operation and Maintenance of Outfall Facilities for Aliso Water Management Agency and for such Agency on Behalf of Project Committee No. 11-A", as amended, dated for convenience as of September 24, 1976, and hereinafter sometimes referred to as "the Project Committee No. 11-A Agreement"; and

(b) "Agreement for Design, Construction, Use, Operation, Maintenance, Repair and Replacement of Phase I North Coastal Interceptor Sewer Pipeline and Pumping Stations for Aliso Water Management Agency for and on Behalf of Project Committee No. 7-A" as amended, dated for convenience as of November 4, 1976, and hereinafter sometimes referred to as "the Project Committee No. 7-A Agreement".

The certain facilities referred to hereinabove and the portions of ownership capacity in and of the same allocated to the City by the Project Committee No. 11-A Agreement and the Project Committee No. 7-A Agreement are set forth in Exhibit "A" hereto, provided, however, that said Exhibit "A" is supplied for informational purposes only and that the provisions of the said Project Committee Agreements shall govern in all respects. Copies of said Project Committee Agreements are on file in the offices of the Secretary of the Agency and the City Clerk of the City; and the same are hereby incorporated herein and made a part hereof as though set forth at length. "Facilities" includes all of the Project except the site.

Possession of

"Possession of", when used with reference to the Facilities, means the use thereof for the purpose of collecting, transmitting, treating, reclaiming, reusing, disposing of, and/or managing wastewater.

Project or Leased Premises

"Project" means the Facilities and undivided interests in the Site, which undivided interests bear the same ratios to the various portions of the Site in which the Facilities will be located as the Facilities bear to the Public Improvements of Which the Facilities Will Be a Portion. Said Project is sometimes referred to as "Leased Premises".

Public Improvements of Which the Facilities Will be a Portion

"Public Improvements of Which the Facilities Will Be a Portion" means those certain facilities for the collection, transmission, treatment, reclamation, reuse, dis-

posal, and/or management of wastewater being constructed, or proposed to be constructed, by the Agency under and pursuant to the Project Committee No. 11-A Agreement and the Project Committee No. 7-A Agreement.

Resolution

"Resolution" means the Resolution to be adopted by the Agency providing for the issuance of its Bonds.

Site

"Site" means the real property, consisting of parcels, easements, and rights of way (whether obtained through deed, permit or otherwise), on which the Facilities described herein are to be located. Said real property is described in detail in Exhibit "B" attached hereto and by this reference incorporated herein as though set forth at length.

Term

"Term" means the term of this Lease as provided in Section 3 hereof.

Trustee

"Trustee" means the fiscal agent appointed under the Resolution and referred to therein as "Trustee" and any successor appointed as therein provided.

SECTION 2. Demised Premises, Ownership.

The Agency hereby leases the Project to the City, subject to the terms and conditions of this Lease.

SECTION 3. Term.

The term of this Lease shall commence on January 1, 1981, provided all of the Facilities are substantially completed and written notice thereof has been served on the City, or on any later date of such substantial completion, including, without limitation, any extension of the completion date as may be provided under any Construction Contract. Although this contemplates all the Facilities' being substantially completed and the City's taking possession of them on the same date, it shall not preclude City and Agency from agreeing that the City may take possession of all or part of the Facilities and agree to pay rental therefor, prior to the other parts thereof being substantially completed; and, in such case, the term of this Lease shall commence upon such occupancy.

This Lease shall end on January 1, 2111, or such earlier time when the bonds issued by the Agency pursuant to the Resolution or any Supplemental Resolution have been retired or provisions for payment has been provided for pursuant thereto, and, at such time, any surplus funds remaining in the hands of the Trustee shall be paid to City.

SECTION 4. Rental.

The City shall pay the Base Rental and the Additional Rental to the Agency in the amounts, at the times and in

the manner set forth herein, said amounts constituting in the aggregate the total of the annual rental payable under this Lease as follows:

(a) *Base Rental.* For the period commencing on (1) July 1, 1981 or (2) the date which City takes possession of all of the Facilities, whichever (1) or (2) occurs later, City agrees to pay to the Trustee for the account of the Agency in advance for each fiscal year rent at the rate of \$_____* per annum; and rent shall cease when the Bonds have been paid or provision for payment has been made. In the event that the liability of City for rent at said annual rate does not commence on July 1, 1981, the rent to be paid for the remaining portion of the fiscal year in which such liability commences shall be prorated and shall be paid within thirty (30) days following commencement of such liability, but in no event later than the next succeeding June 30. During the term of this Lease, said rental shall be due on May 1 (beginning May 1, 1981) and may be paid on or before May 31 without penalty or interest in each fiscal year for use of the Leased Premises during said fiscal year.

(b) *Additional Rental.* In addition to and after the commencement of the Base Rental hereinabove set forth, the City shall pay to the Trustee for the account of the Agency an amount or amounts (hereinafter called "Additional Rental") equivalent to the sum of the following:

(i) All taxes and assessments of any nature whatsoever, including, but not limited to, excise taxes, ad valorem taxes, ad valorem and specific lien special assessments and gross receipts taxes, if any, levied upon the Project or upon the Agency's interest therein or upon the Agency's operation thereof or the Agency's rental income derived therefrom.

(ii) All expenses (not otherwise paid or provided for out of the proceeds of the sale of Bonds of the Agency) incidental to the issuance of the Bonds and all administrative costs of the Agency directly relating to this Lease, including, without limiting the generality of the foregoing, salaries, wages, expenses, compensation and indemnification of the Trustee under the Resolution, fees and charges of auditors, accountants, architects, attorneys and engineers, and all other necessary administrative charges of the Agency or charges required to be paid by it in order to comply with the terms of the Bonds or of the Resolution and to defend the Agency and its members.

(iii) Insurance premiums, if any, on all insurance required or permitted under the provisions of Section 8 hereof.

(iv) All costs and expenses which the Agency may incur in consequence of or because of any default by the City under this Lease, including reasonable attorneys' fees and costs of suit in equity or action at law to enforce the terms and conditions of this Lease.

* Subject to determination when the interest rate or rates on Agency's Bonds are known.

(v) All sums necessary to maintain at the amount of \$5,000 the Working Capital Fund established pursuant to the Resolution.

(vi) All sums required to be paid by the City for the purposes of maintaining and operating the Public Improvements of Which the Facilities Will Be a Portion as set forth in the Project Committee No. 11-A Agreement and the Project Committee No. 7-A Agreement.

The Additional Rental payable hereunder shall be paid by the City within ten (10) days after notice in writing from the Agency to the City stating the amount of Additional Rental then due and payable and the purpose thereof; provided that the City's liability for Additional Rental shall be limited to the balance due under the Resolution. Nothing herein contained shall prevent the City from making from time to time contributions or advances to the Agency for any purpose now or hereafter authorized by law.

(c) *Consideration.* The payments of Base Rental and Additional Rental hereunder for each fiscal year of the term of this Lease shall constitute the total rental for said fiscal year and shall be paid by the City for and in consideration of the right of use and occupancy, and the continued quiet use and enjoyment, of the Leased Premises for and during said fiscal year which the City receives. The parties hereto have agreed and determined that such total rental represents the fair rental value of the Leased Premises. In making such determination, consideration has been given to the costs of acquisition and financing the construction of the Facilities, the uses and purposes which will be served by the Facilities and the benefits therefrom which will accrue to the parties to the Agreement and the general public by reason of the Facilities.

(d) *Budget.* The City shall take such action as may be necessary to include and maintain all such total rental payments due hereunder in each fiscal year in its budget for such fiscal year and further shall make the necessary appropriations for all such rental payments. The City shall furnish to the Agency and to the Trustee under the Resolution copies of the budget at least fifteen (15) days before final adoption thereof. The covenants on the part of the City herein contained shall be deemed to be and shall be construed to be ministerial duties imposed by law and it shall be the ministerial duty of each and every public official of the City to take such action and do such things as are required by law in the performance of such official duty of such officials to enable the City to carry out and perform the covenants and agreements in this Lease agreed to be carried out and performed by the City.

(e) *Payment.* Each annual Base Rental payment and each Additional Rental payment shall be paid in lawful money of the United States of America, by warrant or check drawn against funds of the City, at the office of the Trustee in Los Angeles, California, or at such other place or places as may be set forth in the Resolution.

Each annual Base Rental payment and each Additional Rental payment which is not paid when due shall bear interest at a rate which is the same as the average interest rate per annum which the Bonds bear from the date on which the Base Rental payment or Additional Rental payment, as the case may be, becomes due until the same is paid. Notwithstanding any dispute between Agency and City hereunder, City shall make all rental payments when due and shall not withhold any rental payments pending the final resolution of such dispute. In the event of a determination that City was not liable for said rental payments or any portion thereof, said payments or excess of payments as the case may be shall be credited against subsequent rental payments due hereunder.

(f) *Credit on Base Rental.* There shall be credited against Base Rental any amount required to be so credited under the Resolution.

SECTION 5. *Construction of Project.*

The Agency shall construct or cause to be constructed, on the Site the Public Improvements of Which the Facilities Will Be a Portion. The Construction Contract shall be awarded to a contractor or contractors licensed under the laws of the State of California and such Construction Contract shall be awarded after competitive bidding following the procedures required by the applicable laws of the State of California relating to the awarding of contracts of a similar nature by a California water district. For the purpose of paying that part of the cost of construction of said Public Improvements and all costs and expenses incidental thereto, including, but not limited to, engineering fees for design, which represents the pro rata share thereof attributable to the Facilities, the Agency shall issue its Bonds pursuant to the Resolution.

The Agency shall assume the obligations of the City relating to the professional and expert services in connection with the issuance and sale of the Bonds, including, without limitation, bond counsel, financing consultants, accountants, engineers, and other consultants and advisors, and the Agency shall become a client of said firms in accordance with the terms of said contracts.

SECTION 6. *Maintenance and Operations.*

The Agency shall operate and maintain the Public Improvements of Which the Facilities Will Be a Portion as set forth in the Project Committee No. 11-A Agreement and the Project Committee No. 7-A Agreement; but the portion of the costs and expenses therefor required to be paid by the City under and pursuant to the said Project Committee Agreements shall remain an obligation of the City, to be paid as part of the Additional Rental payable pursuant to Section 4 hereof.

SECTION 7. *Additions and Improvements.*

Except as expressly otherwise provided in the Project Committee No. 11-A Agreement and/or the Project Committee No. 7-A Agreement, the City shall have no right during the term of this Lease to make any additions or improvements to the Leased Premises, to attach fix-

tures, structures or signs, or to affix any personal property to the improvements on the Leased Premises.

SECTION 8. *Insurance.*

The Agency shall, during the term of this Lease, keep or cause to be kept a policy or policies of insurance against loss or damage to the Public Improvements of Which the Facilities Will Be a Portion, and appurtenances and permanent equipment, resulting from fire, lightning, vandalism, malicious mischief, and such perils ordinarily defined as "extended coverage" and other perils as Agency and City may agree should be insured against on forms and in amounts satisfactory to each. City and Agency, as the case may be, shall be named as an additional insured under such policies of insurance as the contractor or contractors may be required by the Agency to carry during the construction of the said Public Improvements. Nothing herein shall be construed to require the Agency to carry insurance with respect to equipment or fixtures of the Leased Premises not provided by the Agency pursuant to the plans and specifications for construction of the said Public Improvements.

During the term of this Lease, Agency shall keep or cause to be kept public liability and property damage policies protecting both the Agency and City on forms and in amounts satisfactory to each.

The Agency may also carry or cause to be carried such other insurance as is required by the Resolution.

In accordance with the provisions of Section 4, the City shall pay to the Agency the premiums and charges payable by the Agency for the aforesaid insurance; provided, however, that the portion of such premiums and charges attributable to providing insurance against loss or damage to the two pump stations which will be part of the Public Improvements shall be separately stated, and the City's obligation to pay said portion of such premiums and charges shall be limited to the percentage thereof which is equal to the percentage of the total capacity rights therein which is being leased to the City hereunder.

At the option of the City, any insurance required of the Agency hereunder may be provided by the City.

Notwithstanding the generality of the foregoing, the Agency shall not be required to maintain or cause to be maintained more insurance than is specifically referred to above or any insurance unless the same is insurance which is available from reputable insurers on the open market. The phrase "insurance which is available from reputable insurers on the open market" means standard policies of insurance with standard deductibles offered by reputable insurers in a competitive market.

SECTION 9. *Damage by Fire, Earthquake, Etc.*

It is expressly understood and agreed that the rentals hereunder shall become due only in consideration of the right to occupy and use the Leased Premises from year to year; and, except as herein provided, it is the responsibility of Agency to provide such right at all times to the extent of the Agency's financial ability so to do.

In the event of destruction or damage to the Leased Premises, or to the Public Improvements of Which the Facilities Will Be a Portion, by fire or earthquake or other casualty or events so that they become wholly or partly unusable, Agency, at its option, may do either of the following:

(1) Rebuild and repair the said Public Improvements and the Leased Premises so that they shall be restored to use, in which case this Lease shall remain in full force and effect. Any excess of insurance proceeds resulting from such destruction or damage (other than business [rent] interruption insurance) over the amount expended for such repairing or rebuilding, shall be paid to City; or

(2) Declare this Lease to City terminated and use any money collected from insurance against the destruction of or damage to the said Public Improvements and the Leased Premises to the extent necessary to retire any outstanding securities or any debts or liabilities which Agency may have; provided, however, that if the said Public Improvements and the Leased Premises can be repaired or rebuilt within the period for which Agency has insurance against business (rent) interruption, and if Agency shall have sufficient funds from the proceeds of insurance or otherwise for the necessary repairing or rebuilding, Agency shall not proceed under this option without the City's consent.

During such time as the Leased Premises are unusable, rent shall cease. No further rental payments shall accrue until such Leased Premises are again ready for occupancy and rental payments already made, if any, shall be equitably abated and adjusted accordingly. In the event of partial damage to, or destruction of, the Leased Premises, so as to render a portion thereof unusable by City, such rental payments (including those already made, if any) shall during the period of the partial unusability of the Leased Premises be in an amount that represents the fair market rental value of the remainder of the Leased Premises usable by City.

SECTION 10. *Assignment, Sublease, and Bonds.*

Neither this Lease nor any interest of the City herein shall, at any time after the date hereof, without the prior written consent of the Agency, be mortgaged, pledged, assigned or transferred by City by voluntary act or by operation of law, or otherwise, except as specifically provided herein. The City shall at all times remain liable for the performance of the covenants and conditions on its part to be performed, notwithstanding any assigning, transferring or subletting which may be made. The City shall have the right to sublease or permit the use of all or any part of the Leased Premises, but nothing herein contained shall be construed to relieve the City from its obligation to pay rental as provided in this Lease or relieve the City from any other obligations contained herein, nor shall anything herein contained authorize the City to sublet or permit the use of all or any part of the Leased Premises except as otherwise permitted by the Project Committee Agreements. The Agency shall issue

its Bonds under and pursuant to the Resolution. Such Resolution shall operate as an assignment of the Lease to the Trustee for financing purposes. The Agency may provide for the execution of any and all instruments necessary and proper in connection therewith. Whenever in this Lease any consent or approval is required, the same shall not be unreasonably withheld. Any items herein required or permitted to be done by the Agency may, if so provided under the Resolution, be performed by the Trustee thereunder.

SECTION 11. *Eminent Domain.*

If the whole of the Leased Premises, or so much thereof as to render the remainder unusable for the purposes for which the same was constructed, shall be taken under the power of eminent domain, then this Lease shall terminate as of the day possession shall be so taken. If less than the whole of the Leased Premises shall be taken under the power of eminent domain, and the remainder is usable for the Project purposes, then this Lease shall continue in full force and effect and shall not be terminated by virtue of such taking (and the parties waive the benefit of any law to the contrary), in which event there shall be a partial abatement of the rent hereunder in an amount equivalent to the amount by which the annual payments of principal of, and interest on, the outstanding Bonds of the Agency will be reduced in any applicable year by the application of the award in eminent domain to the call for redemption of outstanding Bonds.

Any award made in eminent domain proceedings for the taking or damaging of the Leased Premises in whole or in part shall be paid to the Trustee for the direct benefit of the holders of the Bonds and shall be used by the Trustee (together with any other money which shall be or may be made available for such purpose) to call a principal amount of bonds in each of the remaining maturities so that, as nearly as possible in the discretion of the Trustee, equal annual payments of principal and interest on the outstanding bonds remaining will be maintained after said call.

In the event the amount so paid to the Trustee shall be more than sufficient to retire the Bonds then outstanding any such excess shall be paid by the Trustee to the City.

SECTION 12. *Taxes.*

The parties understand and agree that the Leased Premises constitute public property free and exempt from all taxation; however, the Agency agrees to take whatever steps may be necessary, upon written request by the City, to contest any proposed tax or assessment, or to take steps necessary to recover any tax or assessment paid. The City agrees to reimburse the Agency for any and all costs and expenses thus incurred by the Agency.

SECTION 13. *Quiet Enjoyment.*

The parties hereto mutually covenant and agree that the City, by keeping and performing the covenants and agreements herein contained, shall at all times during

the term, peaceably and quietly, have, hold and enjoy the Leased Premises.

SECTION 14. *Law Governing.*

This Lease is made in the State of California under the Constitution and laws of such State and is to be so construed.

SECTION 15. *Notices.*

All notices, statements, demands, requests, consents, approvals, authorizations, offers, agreements, appointments or designations hereunder by either party to the other shall be in writing and shall be sufficiently given and served upon the other party, if sent by United States registered mail, return receipt requested, postage prepaid and addressed as follows:

City—City Clerk, City Hall, 505 Forest Avenue,
Laguna Beach, California 92651

Agency—Secretary of the Agency, 2061 Business
Center Drive, Irvine, California 90271

SECTION 16. *Waiver.*

The waiver by the Agency of any breach by the City of any term, covenant or condition hereof shall not operate as a waiver of any subsequent breach of the same or any other term, covenant or condition hereof.

SECTION 17. *Default by City.*

If (a) City shall fail to pay any rental payable hereunder within fifteen (15) days from the date such rental is payable, or (b) City shall fail to keep any such other terms, covenants or conditions contained herein for a period of twenty-five (25) days after written notice thereof from Agency to City, or (c) City shall abandon or vacate the premises, or (d) City's interest in this Lease or any part thereof shall be assigned or transferred without the written consent of Agency, either voluntarily or by operation of law, or (e) City shall file any petition or institute any proceedings wherein or whereby City asks or seeks or prays to be adjudicated a bankrupt, or to be discharged from any or all of its debts or obligations, or offers to City's creditors to effect a composition or extension of time to pay City's debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization, or for a readjustment of City's debts, or for any other similar relief, or (f) any such petition or any such proceedings of the same or similar kind or character shall be filed, instituted or taken against City, then and in any of such events City shall be deemed to be in default hereunder.

If City should, after notice of such default, fail to remedy any default with all reasonable dispatch, in not exceeding thirty (30) days, then Agency shall have the right, at its option, without any further demand or notice (i) to terminate this Lease and to re-enter the Leased Premises and eject all parties in possession thereof there-

from, using all necessary force so to do, or (ii) to re-enter the Leased Premises and eject all parties therefrom, using all necessary force so to do, and, without terminating this Lease, re-let the Leased Premises, or any part thereof, as the agent and for the account of City upon such terms and conditions as Agency may deem advisable, in which event the rents received on such re-letting shall be applied first to the expenses of re-letting and collection, including necessary renovation and alteration of the Leased Premises, reasonable attorneys' fees, and any real estate commissions actually paid, and thereafter toward payment of all sums due or to become due to Agency hereunder, and if a sufficient sum shall not be thus realized to pay such sums and other charges, City shall pay Agency annually any cumulative net deficiency existing on the date when Base Rental is due hereunder. The foregoing remedies of Agency are in addition to and not exclusive of any other remedy of Agency. Any such re-entry shall be allowed by City without let or hindrance and Agency shall not be liable in damages for any such re-entry or be guilty of trespass.

SECTION 18. *Net Lease.*

The City hereby agrees that the Base Rental provided for herein shall be an absolute net return to the Agency, free and clear of any expenses, charges or set-offs whatsoever.

SECTION 19. *Other Entities Not Liable Hereunder.*

The obligation to make rental payments hereunder is a liability only of the City; and neither the Agency nor any of the parties to the Agreement, other than the City, shall be liable for any lease payments or any liabilities arising out of the execution hereof.

SECTION 20. *Execution.*

This Lease may be simultaneously executed in any number of counterparts, each of which when so executed shall be deemed to be an original, but all together shall constitute but one and the same Lease, and it is also understood and agreed that separate counterparts of this Lease may be separately executed by the Agency and the City, all with the same full force and effect as though the same counterpart had been executed simultaneously by both the Agency and the City.

SECTION 21. *Validity.*

If any one or more of the terms, provisions, promises, covenants or conditions of this Lease shall to any extent be adjudged invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, each and all of the remaining terms, provisions, promises, covenants and conditions of this Lease shall not be affected thereby and shall be valid and enforceable to the fullest extent permitted by law.

If for any reason this Lease shall be held by a court of competent jurisdiction void, voidable, or unenforceable by the Agency or by the City, or if for any reason it is held by such a court that the covenants and condi-

tions of the City hereunder, including the covenant to pay rents hereunder, is unenforceable for the full term hereunder, then and in such event for and in consideration of the right of the City to possess, occupy and use the Leased Premises, which right in such event is hereby granted, this Lease shall thereupon become, and shall be deemed to be, a lease from year to year under which the annual rentals herein specified will be paid by the City.

If the Treasurer of the Agency is substituted for the Trustee pursuant to the Resolution, all references herein to Trustee shall be deemed to mean said Treasurer.

IN WITNESS WHEREOF, the parties hereto have caused this Lease to be executed and attested by their proper officers thereunto duly authorized, and their official seals to be hereto affixed, as of the day and year first above written.

CITY OF LAGUNA BEACH,
CALIFORNIA

By

Mayor

Attest:

By

City Clerk

[Seal]

I HEREBY APPROVE the form and legality of the foregoing Lease this ____ day of _____, ____.

City Attorney

ALISO WATER MANAGEMENT AGENCY

By

Chairman

Attest:

Secretary

[Seal]

I HEREBY APPROVE the form and legality of the foregoing Lease this ____ day of _____, ____.

By

Attorney for Agency

Exhibit A

PROJECT COMMITTEE NO. 7-A NORTH COAST INTERCEPTOR

*Percentage of
City of
Laguna Beach
Capacity*

Phase I Facilities

Reaches E and F	67.96%
Reaches G and H	73.70
Reach I	73.70
Laguna Beach Pumping Station Structure	67.96
Laguna Beach Pumping Station Pumping Facilities	94.98
Bluebird Pumping Station Structure	73.70
Bluebird Pumping Station Pumping Facilities	96.18

Phase II Facilities

Reaches A through D, inclusive	0.00%
Morro Pumping Station	0.00
Emerald Bay Pumping Station	0.00
Expansion of Laguna Beach Pumping Station	17.55
Expansion of Bluebird Pumping Station	20.79

PROJECT COMMITTEE NO. 11-A ALISO CREEK OCEAN OUTFALL

*Percentage of
City of
Laguna Beach
Capacity*

All Facilities	18.40%
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Exhibit B

(Copies of Legal Description are on file with the City
and the Secretary of the Agency.)

RESOLUTION NO. 78-4

RESOLUTION OF THE ALISO WATER MANAGEMENT AGENCY CONSTITUTING ITS INDENTURE PROVIDING THE TERMS AND CONDITIONS FOR THE ISSUANCE OF \$4,250,000 SEWERAGE FACILITIES REVENUE BONDS, SERIES A

BE IT RESOLVED, DETERMINED AND ORDERED BY THE GOVERNING BOARD OF THE ALISO WATER MANAGEMENT AGENCY, as follows:

ARTICLE I

DEFINITIONS AND SECURITY

SECTION 1.01. *Definitions.* The terms defined in this section shall have the following meanings, unless the context otherwise requires:

Act

"Act" means Article 1, Chapter 5, Division 7, Title 1 of the Government Code of the State of California (commencing with Section 6500).

Agreement

"Agreement" means that certain Agreement entered into pursuant to the Act entitled: "Joint Exercise of Powers Agreement Creating Aliso Water Management Agency", as amended, under and pursuant to which the Authority has been organized, dated for convenience as of March 1, 1972.

Additional Bonds

The term "Additional Bonds" means such other issue of Bonds, revenue notes or any other evidences of indebtedness payable out of the revenues, ranking on a parity with these Bonds and authorized to be issued pursuant to Sections 3.05 and 3.06 hereof.

Agency

The term "Agency" means the Aliso Water Management Agency, a public entity created by the Agreement pursuant to the Act.

Bond Act

"Bond Act" means the Revenue Bond Law of 1941 (Government Code Sections 54300 et seq.).

Bondholder, Holder of Bonds

The term "Bondholder" or "Holder of Bonds" or any similar term means any person who shall be the holder of any outstanding Bond: (i) payable to bearer, or (ii) the registered owner or his duly authorized attorney, representative or assignee of any outstanding Bond which shall at the time be registered so as to be payable other than to bearer.

For the purpose of Bondholders' voting rights or consents, Bonds owned by the Agency or by any of the parties to the Agreement shall not be counted.

Bonds

The term "Bonds" means the "Aliso Water Management Agency Sewerage Facility Revenue Bonds, Series A", authorized by, and at any time outstanding pursuant to this Resolution.

Certificate of the Agency, Statement of the Agency, etc.

The terms "Certificate of the Agency," "Statement of the Agency," "Written Request of the Agency," and "Written Consent of the Agency" mean, respectively, a written certificate, statement, request or consent signed in the name of the Agency by such person as may be designated and authorized to sign for the Agency for such purpose. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

City

The term "City" means the City of Laguna Beach, a municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of California.

Construction Contract

"Construction Contract" means the construction contracts providing for the construction of the Public Improvements of Which the Facilities Will Be a Portion, including, without limitation, the plans and specifications, any addenda thereto, and other construction documents, a copy or copies of which is, are or will be on file in the office of the Secretary of the Agency and the City Clerk of the City.

Engineer's Certificate

The term "Engineer's Certificate" means a certificate signed by a duly authorized officer or representative of the engineer designated for such purpose by the Agency.

Facilities

"Facilities" means undivided interest in, and portions of the ownership capacity in and of those certain facilities for the collection, transmission, treatment, reclamation, reuse, disposal, and/or management of wastewater be-

ing constructed, or proposed to be constructed, by the Agency, as hereinafter described, the extent of which undivided interests and portions of ownership capacity are each equal, as percentages of the totals thereof, to the percentages of ownership capacity in said facilities allocated to the City by those certain Agreements entitled and dated for convenience as follows:

(a) "Agreement for Acquisition of Capacity Construction, Use, Operation and Maintenance of Outfall Facilities for Aliso Water Management Agency and for such Agency on Behalf of Project Committee No. 11-A", as amended, dated for convenience as of September 24, 1976, and hereinafter sometimes referred to as "the Project Committee No. 11-A Agreement"; and,

(b) "Agreement for Design, Construction, Use, Operation, Maintenance, Repair and Replacement of Phase I North Coastal Interceptor Sewer Pipeline and Pumping Stations for Aliso Water Management Agency for and on Behalf of Project Committee No. 7-A" as amended, dated for convenience as of November 4, 1976, and hereinafter sometimes referred to as "the Project Committee No. 7-A Agreement".

The certain facilities referred to hereinabove and the portions of ownership capacity in and to the same allocated to the City by the Project Committee No. 11-A Agreement and the Project Committee No. 7-A Agreement are set forth in Exhibit "A" to the Lease, provided, however, that said Exhibit "A" is supplied for informational purposes only and that the provisions of the said Project Committee Agreements shall govern in all respects. Copies of said Project Committee Agreements are on file in the offices of the Secretary of the Agency and the City Clerk of the City; and the same are hereby incorporated herein and made a part hereof as though set forth at length. "Facilities" includes all of the Project except the site.

Federal Securities

The term "Federal Securities" means direct obligations of the United States and those for which the full faith and credit of the United States are pledged for the payment of principal and interest; bonds, consolidated bonds, collateral trust debentures, or other obligations issued by federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended; debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended; bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act; bonds, debentures and other obligations of the Federal National Mortgage Association established under the National Housing Act, as amended; and bonds of any federal home loan bank established under said Act; and, also, any securities now or hereafter authorized, both the principal of and interest on which is guaranteed directly or indirectly by the full faith and credit of the United States of America.

Financial Newspaper or Journal

The term "financial newspaper or journal" means *The Wall Street Journal* or *The Daily Bond Buyer* or any other newspaper or journal devoted to financial news and selected by the Trustee whose decision shall be final and conclusive.

Fiscal Year

The term "fiscal year" means the fiscal year as established from time to time by the City, being on the date of this Resolution, the period from July 1 to and including the following June 30.

Governing Board

The term "Governing Board" means the Governing Board of the Aliso Water Management Agency created by the Agreement.

Lease

The term "Lease" means the Public Facilities Lease, dated for convenience as of January 1, 1978, covering the leasing of the Project from the Agency by the City, and any amendments thereto as may be permitted hereunder.

Maximum Annual Debt Service

The term "Maximum Annual Debt Service" means the maximum amount payable as interest on and as principal of the aggregate amount of outstanding Bonds and Additional Bonds in any fiscal year.

Opinion of Counsel, Bond Counsel

The term "opinion of counsel" means a written opinion of counsel (who may be counsel for the Agency or Bond Counsel) retained by the Agency. "Bond Counsel" means any attorney or firm of attorneys of favorable reputation in the field of municipal bond finance. Any opinion of such counsel may be based upon, insofar as it relates to factual matters, information with respect to which is in the possession of the Agency, upon a certificate or opinion of, or representation by, an officer or officers of the Agency, unless such counsel knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which his opinion may be based, as aforesaid, is erroneous.

Possession of

"Possession of", when used with reference to the Facilities, means the use thereof for the purpose of collecting, transmitting, treating, reclaiming, reusing, disposing of, and/or managing wastewater.

Project or Leased Premises

"Project" means the Facilities and undivided interests in the Site, which undivided interests bear the same ratios to the various portions of the Site in which the Facilities will be located as the Facilities bear to the Public Improvements of Which the Facilities Will Be a

Portion. Said Project is sometimes referred to as the "Leased Premises".

Public Improvements of Which the Facilities Will Be a Portion

"Public Improvements of Which the Facilities Will Be a Portion" means those certain facilities for the collection, transmission, treatment, reclamation, reuse, disposal, and/or management of wastewater being constructed, or proposed to be constructed, by the Agency under and pursuant to the Project Committee No. 11-A Agreement and the Project Committee No. 7-A Agreement.

Resolution

The term "Resolution" means this Resolution, adopted by the Agency, which, under the Bond Act, is referred to as the Indenture which provides the terms and conditions for the issuance of the Notes and/or Bonds.

Revenues

The term "Revenues" shall include:

First: Revenues derived from the operation of the Project, to wit:

(a) all rental and other income received by the Agency as lessor under the Lease, and/or

(b) All rental and other income of any type and nature derived by the Agency from the use and operation of the Project if the same is operated by the Agency in case of default by the City.

Second: Certain other revenues, to wit:

(a) That portion of any damages received under the terms of the Construction Contract that are not part of the cost of the Project under Section 3.04, which portion bears the same ratio to the whole of such damages as the portion of the construction contract price in question being financed from the proceeds of the sale of the Bonds bears to the whole of said construction contract price; and/or

(b) Any interest or other income derived from the funds herein provided for that are not part of the Construction Fund under Section 3.03.

Third: All rentals and other income of any type and nature received by the Agency as lessor or otherwise from improvements to or additions to or extensions of the Project later constructed or made; provided, however, that the construction by the Agency of other regional facilities for the collection, transmission, treatment, reclamation, reuse, disposal, and/or management of wastewater pursuant to project committee agreements other than the Project Committee No. 11-A Agreement and the Project Committee No. 7-A Agreement shall not be deemed to constitute improvements to or additions to or extensions of the Project for purposes of this definition.

Site

"Site" means the real property, consisting of parcels, easements, and rights of way (whether obtained through

deed, permit, or otherwise), on which the Facilities described herein are to be located. Said real property is described in detail in Exhibit "B" to the Lease.

Supplemental Resolution

The term "Supplemental Resolution" means any resolution at any time in full force and effect which has been duly adopted by the Agency under the Bond Act, or any act supplementary thereto or amendatory thereof, at a meeting of the Agency duly convened and held, at which a quorum was present and acted thereon, amendatory of or supplemental to this Resolution, but only if and to the extent that such supplemental resolution is specifically authorized hereunder.

Treasurer

The term "Treasurer" means the Treasurer of the Agency pursuant to the Agreement.

Trustee

The term "Trustee" means "Crocker National Bank", or its successor for the time being as Trustee hereunder. The Trustee shall act as fiscal agent hereunder.

Written Requisition

The term "Written Requisition" means a requisition prepared in such form or forms, signed by an authorized officer and containing the information required by this Resolution.

SECTION 1.02. Security. Pursuant to the Bond Act and this Resolution, the outstanding and unpaid Bonds shall be and are equally secured by a pledge of and lien upon the Revenues as defined in this Resolution; and so long as any of such Bonds or interest coupons thereof are outstanding and unpaid, such Revenues and the interest thereon may be used only as provided in this Resolution, unless the authority to make other use of such Revenues shall be authorized by the Bondholders pursuant to the provisions of this Resolution; and during such period the Agreement shall be irrevocable and may not be amended or modified in any manner to the detriment of the Bondholders.

Any Bond for the payment and discharge of which upon maturity, or upon redemption prior to maturity, provision has been made through the setting apart in a reserve fund or special trust account created pursuant to this Resolution or otherwise to insure the payment thereof, of money sufficient for the purpose or through the irrevocable segregation for that purpose in some sinking fund or other fund or trust account of moneys sufficient therefor, shall be deemed to be no longer outstanding and unpaid within the meaning of any provision of this Resolution. This Resolution, including, without limitation, all covenants and agreements herein set forth to be performed on behalf of the Agency shall be for the equal and proportionate benefit, security and protection of all Holders of such Bonds and interest coupons without preference, priority or distinction, as to security or other-

wise, of any of such Bonds or interest coupons over any of the others by reason of time of issue, sale or negotiation thereof, or otherwise for any cause whatsoever, except as expressly provided therein or herein.

This Resolution fixes the terms and conditions of the Bonds and in its articles, sections and clauses thereof makes such provisions and covenants as are valid under the Constitutions of the State of California and the United States of America and are deemed necessary or desirable to facilitate the issuance and sale of the Bonds and for the protection or security of the Holders thereof.

Bonds issued under this Resolution shall not constitute a debt, liability or obligation of any of the public agencies who are parties to the Agreement creating the Agency.

Nothing in this Resolution or in any subsequent resolution shall preclude: (a) the Agency from providing, subject to the limitations in Section 6.15, for the issuance, sale or exchange of refunding Bonds, revenue notes or any other evidences of indebtedness payable out of the Revenues for the purpose of redeeming or retiring prior to maturity any of such Bonds which are subject to call and redemption prior to maturity and from providing for the payment of said Bonds from proceeds of such refunding Bonds issued under the Bond Act as the same now exists or as hereafter amended, or under any other law of the State of California; or (b) the issuance of Additional Bonds, revenue notes or any other evidences of indebtedness payable out of the Revenues pursuant to Sections 3.05 and 3.06 and subject to the limitations thereof, ranking on a parity with said Bonds; or (c) the issuance of Additional Bonds for other projects from sources other than the Revenues.

ARTICLE II THE BONDS

SECTION 2.01. Authorization. Bonds of the Agency are hereby authorized to be issued under and subject to the terms of this Resolution for the object and purpose of providing the funds required for the acquisition, construction and financing of the Project, including expenses incidental thereto or connected therewith. The Bonds are designated as the "Aliso Water Management Sewerage Facilities Revenue Bonds, Series A". The Bonds may be sold in such amounts as from time to time shall be established and authorized by the Agency, subject to the conditions and limitations herein contained.

SECTION 2.02. Terms of Bonds. The Bonds to be initially issued under this Resolution, shall be in an aggregate principal amount of \$4,250,000 and such issue of Bonds is hereby created. The Bonds may be initially issued in the form of Bearer Bonds in the denomination of \$5,000 each, or in the form of Fully Registered Bonds, in denominations of \$5,000 each or any whole multiple thereof. The Bearer Bonds shall be dated as of January 1, 1978, and shall be numbered A-1 to A-850 inclusive consecutively upward in order of their respective maturities. The Bonds shall mature on July 1 in the amounts and on the date as follows:

Maturity Date July 1	Principal Amount
1981.....	\$ 55,000
1982.....	60,000
1983.....	65,000
1984.....	70,000
1985.....	75,000
1986.....	80,000
1987.....	85,000
1988.....	90,000
1989.....	100,000
1990.....	105,000
1991.....	115,000
1992.....	120,000
1993.....	130,000
1994.....	140,000
1995.....	145,000
1996.....	155,000
1997.....	170,000
1998.....	180,000
1999.....	195,000
2000.....	205,000
2001.....	220,000
2002.....	235,000
2003.....	255,000
2004.....	270,000
2005.....	290,000
2006.....	310,000
2007.....	330,000

The Bonds shall bear interest at a rate or rates to be thereafter fixed, but not to exceed eight percent (8%) per annum, payable annually the first year on January 1, 1979 and semiannually thereafter on the first day of July and January of each year.

The interest coupons attached to the Bearer Bonds shall be numbered in consecutive numerical order from one (1) upwards in the order of their respective maturities. Each such coupon shall represent six (6) months' interest on the Bearer Bond to which it is attached, except for the first coupon which shall represent twelve (12) months' interest.

The Bonds shall be payable, both as to principal and interest and as to any premiums upon the redemption thereof prior to maturity, in lawful money of the United States of America, and (except for interest on Fully Registered Bonds which is payable by check or draft as stated below) are payable at the principal offices of the Trustee, Crocker National Bank, in the Cities of Los Angeles and San Francisco, California, or at the option of the Holder, at the offices of the Paying Agents of the Agency in the City of New York, New York; or the City of Chicago, Illinois.

The Fully Registered Bonds shall be numbered by the Trustee as the Trustee shall determine and shall be dated as of the date of authentication thereof, except that Fully Registered Bonds issued upon exchanges and transfers of Fully Registered Bonds and upon exchanges of Bearer

Bonds for Fully Registered Bonds shall be dated so that no gain or loss of interest shall result from such exchange or transfer. Each Fully Registered Bond shall bear interest from the interest payment date next preceding the date thereof unless it is dated as of an interest payment date, in which event it shall bear interest from the date thereof, or unless it is dated prior to the first interest payment date, in which event it shall bear interest from January 1, 1978. Interest on Fully Registered Bonds shall be paid by the Trustee (out of funds provided for that purpose by the Agency) by check or draft mailed to the registered owner at his address as it appears on the register kept by the Trustee pursuant to Section 2.06 of this Resolution at the close of business on the fifteenth day preceding the interest payment date.

The Bonds shall be subject to redemption prior to their respective stated maturities as provided in Article IV.

SECTION 2.03. *Forms of Bonds.* The Bearer Bonds and the interest coupons pertaining thereto shall be substantially in the form annexed hereto and made a part hereof, marked "Exhibit A" (Bearer Bond), and the Fully Registered Bonds shall be substantially in the form annexed hereto and made a part hereof, marked "Exhibit B" (Fully Registered Bond). Such forms are hereby approved and adopted as the forms of the Bonds, and of the coupons and redemption, exchange, registration and assignment provisions pertaining thereto; and such Bonds shall be in substantially the forms set forth in said Exhibits with necessary or appropriate variations, omissions and insertions, as permitted or required by this Resolution.

The recitals of regularity of proceedings in the Bonds issued and sold under this Resolution shall be conclusive evidence of compliance with the provisions of the Bond Act and the validity of such Bonds.

SECTION 2.04. *Execution of Bonds.* All of the Bonds shall be executed in the name and on behalf of the Agency and under its seal with the signature of the Chairman of the Agency and the countersignature of the Secretary of the Agency. Either such signature or such countersignature may be printed, lithographed, engraved or otherwise mechanically reproduced, but one of them shall be manually affixed to each Bond by the Chairman or the Secretary, as determined by the Agency. The seal of the Agency may be printed, engraved, stamped or otherwise placed in facsimile form on the Bonds.

The coupons to be attached to the Bearer Bonds shall bear the facsimile signature of the Secretary of the Agency.

In case any such officer whose signature or countersignature appears on the Bonds or coupons shall cease to be such officer before the Bonds so signed shall have been delivered, such signature or countersignature shall nevertheless be valid and sufficient for all purposes the same as if he had remained in office until the delivery of the Bonds; and such Bonds shall be issued and outstanding hereunder and shall be as binding upon the Agency

as though the person who signed such Bonds had been such official on the date borne by the Bonds and on the date of delivery. Also, any Bond or coupons may be signed and sealed on behalf of the Agency by such person as at the actual date of execution of such Bond shall be the Chairman or Secretary of the Agency, as the case may be, although on the date borne by such Bond such person shall not have been such official.

Prior to the delivery of any Bearer Bond, all coupons thereon then matured and not in default shall be detached and cancelled by the Trustee and delivered to or upon the order of the Agency.

SECTION 2.05. *Types of Bonds, Registration, Discharge and Exchange.* Two forms of Bonds have been provided: (1) those which shall be initially issued and which are in negotiable form, payable to bearer with negotiable coupons (herein sometimes referred to as "Bearer Bonds"), and (2) those which are issued to facilitate registration and so are issued as non-negotiable Fully Registered Bonds payable to the registered owner (herein sometimes referred to as "Fully Registered Bonds").

The Bearer Bonds are not registrable by endorsement, and may be exchanged for Fully Registered Bonds as provided herein.

A Bearer Bond or Bearer Bonds may be registered by exchanging the same for a Fully Registered Bond or Fully Registered Bonds, as the case may be. A Bearer Bond or Bearer Bonds and a Fully Registered Bond or Fully Registered Bonds may be exchanged for a Fully Registered Bond or Fully Registered Bonds. A Fully Registered Bond may be exchanged in whole for Bearer Bonds or in part for such Bearer Bonds and the balance for Fully Registered Bonds. Transfer of ownership of a Fully Registered Bond or Fully Registered Bonds shall be made by exchanging the same for a new Fully Registered Bond or Fully Registered Bonds. All of such exchanges shall be made in such manner and upon such reasonable terms and conditions as may from time to time be determined and prescribed by the Agency; provided, however, no such exchange shall be made between the fifteenth day preceding any interest payment date and such interest payment date. Such exchanges shall be free of any costs or charges to the person, firm or corporation requesting such exchange, except for any tax or governmental charge that may be imposed in connection with such exchange. Each Bearer Bond issued pursuant to this Resolution shall be of the denomination of \$5,000. Each Fully Registered Bond issued pursuant to this Resolution shall be of a denomination which is \$5,000 or a whole multiple thereof. Such Fully Registered Bond or Bonds shall be of the same series, and may be of one or more interest rates and maturities.

SECTION 2.06. *Bond Register.* The Trustee will keep or cause to be kept at its principal office in the City of Los Angeles, California, sufficient books for the registration and transfer of the Bonds, which shall at all

times be open to inspection by the Agency; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said register, Bonds as hereinbefore provided.

SECTION 2.07. *Temporary Bonds.* Any Bonds issued under this Resolution may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Agency, shall be without coupons and may contain such reference to any of the provisions of this Resolution as may be appropriate. Every temporary Bond shall be executed by the Agency and be issued by the Trustee upon the same conditions and in substantially the same manner as the definitive Fully Registered Bonds. If the Agency issues temporary Bonds it will execute and furnish definitive Bonds without delay and thereupon the temporary Bonds may be surrendered for cancellation at the principal office of the Trustee in the City of Los Angeles, California; and the Trustee shall deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bearer Bonds or definitive Fully Registered Bonds without coupons of authorized denominations of the same series, interest rate or rates and maturity or maturities. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Resolution as definitive Bonds of the same series delivered hereunder.

SECTION 2.08. *Bonds Mutilated, Lost, Destroyed or Stolen.* If any Bond shall become mutilated the Agency, at the expense of the owner of said Bond, shall execute, and the Trustee shall thereupon deliver, a new Bond of like tenor and number (having annexed appropriate coupons corresponding to those, if any, annexed to the mutilated Bond) in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated together with any unpaid coupons thereto appertaining. Every mutilated Bond so surrendered to the Trustee shall be cancelled by it and redelivered to, or upon the order of, the Agency. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Agency and the Trustee and, if such evidence be satisfactory to both and if an indemnity satisfactory to them shall be given, the Agency, at the expense of the owner, shall execute, and the Trustee shall thereupon deliver, a new Bond of like tenor and numbered as Trustee shall determine (having annexed appropriate coupons corresponding to those, if any, annexed to the lost, destroyed or stolen Bond) in lieu of and in substitution for the Bond so lost, destroyed or stolen. The Trustee may require payment of an appropriate fee for each new Bond issued under this section and of the expenses which may be incurred by the Agency and the Trustee in the premises. Any Bond or coupon issued under the provisions of this section in lieu of any Bond or coupon alleged to be lost, destroyed or stolen shall be equally and proportionately

entitled to the benefits of this Resolution with all other Bonds and coupons of the same issue secured by this Resolution. Neither the Agency nor the Trustee nor any Paying Agent shall be required to treat both the original Bond and any duplicate Bond as being outstanding for the purpose of determining the principal amount of Bonds which may be issued hereunder or for the purpose of determining any percentage of Bonds outstanding hereunder, but both the original and duplicate Bond shall be treated as one and the same.

ARTICLE III

DISPOSITION OF BOND PROCEEDS

SECTION 3.01. *Issuance of Bonds.* At any time after the adoption of this Resolution and the award of the Bonds the Agency may order the Trustee to deliver the Bonds.

SECTION 3.02. *Creation of Funds.* The Trustee shall establish, maintain and hold in trust seven separate funds which are hereby created for the purpose of this Resolution as follows:

(a) *Construction Fund.* The Construction Fund pursuant to Section 3.04.

(b) *Revenue Fund.* The Revenue Fund pursuant to Section 5.01.

(c) *Interest Fund.* The Interest Fund pursuant to Section 5.02.

(d) *Retirement Fund.* The Retirement Fund pursuant to Section 5.02.

(e) *Reserve Fund.* The Reserve Fund pursuant to Section 5.02.

(f) *Working Capital Fund.* The Working Capital Fund pursuant to Section 5.02.

(g) *Operation and Maintenance Fund.* The Operation and Maintenance Fund pursuant to Section 5.02.

SECTION 3.03. *Application of Proceeds of Bonds.*

A. The proceeds received by the Agency from the sale of the Bonds shall be deposited with the Trustee, who shall forthwith set aside such proceeds (except premium and accrued interest which shall be credited directly to the Interest Fund), in the Construction Fund, from which the following amounts shall be allocated and deposited in the following funds:

(a) In the Reserve Fund an amount equal to the Maximum Annual Debt Service on the outstanding Bonds.

(b) In the Interest Fund an amount, which together with premium and accrued interest, if any, shall be sufficient to pay interest coming due on the Bonds on and before January 1, 1981.

(c) In the Working Capital Fund the sum of five thousand dollars (\$5,000).

B. There shall also be deposited, transferred to, or held in the Construction Fund by the Trustee:

(a) Any monthly rent which may be paid by the City with respect to any portion of the Project prior to completion of the entire Project.

(b) All interest and other income earned on stated moneys in the following funds held by the Trustee under the provisions of this Resolution for periods prior to completion of the entire Project: (1) the Construction Fund, and (2) the Reserve Fund under Section 502(c) if such a transfer is requested by the Agency, and (3) the Interest Fund moneys transferred pursuant to Section 3.03(b).

(c) Any moneys to the extent received by the Trustee from any other source (including, without limitation, any moneys donated for such purpose and moneys received pursuant to Sections 6.02 and 6.04) for the payment of the cost of the Project.

SECTION 3.04. *Construction Fund.*

A. The moneys in the Construction Fund shall be applied to the payment of the cost of the acquisition, construction and financing of the Public Improvements of Which the Facilities Will Be a Portion including any or all expenses incidental thereto or connected therewith, including, but without limiting the generality of the foregoing, the costs of surveys, preparation of plans and specifications, acquisition of lands and other property, engineering, inspection and administrative costs, legal and financial consultants' fees, taxes levied on Agency, if any, fees, expenses, costs of the issuance and sale of the Bonds, and including the reimbursement of the City for any of the foregoing costs and expenses whether the same were incurred before or after the adoption of this Resolution.

B. Payments from the Construction Fund shall be made in accordance with the provisions of this Section. Before any such payment shall be made by the Trustee there shall be filed with the Trustee Written Requisition stating in respect to each payment to be made:

- (i) The amount to be paid;
- (ii) The names of the payees;
- (iii) The purposes by general classifications, for which the obligations to be paid were incurred;
- (iv) That the obligation or obligations in the stated amount or amounts have been incurred by or on behalf of the Agency, and that each item thereof is a proper charge against moneys in the Construction Fund and has not been paid;
- (v) That there has not been filed with or served upon the Agency or City notice of any lien, right to lien, or attachment upon, or claim affecting the right to receive payment of, any of the moneys payable to any of the persons named in such Written Requisition, which has not been released or will not be released simultaneously with such payment, other than materialmen's or mechanics' liens accruing by mere operation of law which will not be released until final payment is made;

(vi) Written assurance from the Agency's Treasurer, General Manager, or other official so designated by the Agency that the payment being requested will be used for the purposes stated; and

(vii) A certification that all previous payments made by the Trustee to the Agency have been used by the Agency for the purposes for which they were requested and said certification shall be accompanied by a copy of the Agency's "Bills" with respect to such payments, which copy shall be signed by the member or members of the Agency's Finance Committee who approved the same for payment.

C. Upon receipt of each such Written Requisition, the Trustee shall deliver to the Treasurer with the Trustee's check for payment as requested in the Written Requisition.

D. When the Project shall have been completed, a Certificate of the Agency stating the fact and date of such completion and stating that all of such cost of construction and incidental expenses have been determined and paid, or payment thereof duly provided for by moneys set aside by the Trustee for that purpose, together with an Engineer's Certificate, stating the fact and date of such completion, shall be delivered to the Trustee by the Agency.

E. Upon receipt of such Certificates, the Trustee shall transfer any remaining balance in the Construction Fund as follows:

(1) First, to the Reserve Fund to the extent necessary to maintain said fund in an amount at least equal to the Maximum Annual Debt Service.

(2) Second, any remaining balance after the transfer to the Reserve Fund shall be transferred or held by the Trustee as directed by the Agency, in the amounts and for either of the following purposes:

(i) An amount to be transferred to the Retirement and/or Interest Fund to be placed in a special account therein to be used only for the purpose permitted for said fund(s), and the Agency shall make credits against the next or succeeding installments of Base Rental coming due as provided in Section 4(f) of the Lease of all amounts so used for the payment of principal and/or interest.

(ii) An amount to be retained in the Construction Fund for changes, alterations and additions to the Project.

SECTION 3.05. *Issuance of Additional Bonds.* In addition to the Bonds authorized to be initially issued under this Resolution, the Agency may by supplemental resolution establish one or more other issues of Additional Bonds, on a parity with these Bonds and may issue and deliver such Additional Bonds, in such principal amount as shall be determined by the Agency, but only upon compliance by the Agency with the provisions of

Section 3.06, and subject to the following specific conditions which are hereby made conditions precedent to the issuance of such Additional Bonds:

(a) Such Additional Bonds shall have been authorized to finance the completion of the Project or an addition to the Project, and the issuance thereof shall have been determined and declared by the Agency, in a supplemental resolution, to be necessary for that purpose.

(b) The Agency shall be in compliance with all covenants and undertakings set forth in this Resolution.

(c) The supplemental resolution authorizing issuance of such Additional Bonds shall require that the proceeds of the sale of such Additional Bonds shall be applied solely for the completion of the Project or an addition thereto and expenses and costs incidental thereto, including costs and expenses incidental to the issuance and sale of such Additional Bonds and interest on said Additional Bonds during the actual period of completion of the Project or such addition, and for a period of not to exceed twelve (12) months thereafter.

(d) Such Additional Bonds shall be equally and ratably secured with all other Bonds herein authorized, without preference or priority of any of the Bonds over any other Bonds, except as expressly provided in this Resolution.

(e) The Additional Bonds shall be serial Bonds, payable as to principal on July 1 of each year in which principal falls due, and payable as to interest on January 1 and July 1 of each year, and shall not be subject to optional redemption prior to July 1, 1988.

(f) The Agency shall have entered into a revised lease with the City in and by which the City obligates itself in the manner provided in the Lease to increase the payments of Base Rental and Additional Rental to the Agency for the use of the Project at the times and in the amounts also sufficient to provide for the payment of the principal of and interest on such Additional Bonds as such principal and interest become due.

(g) The Agency shall increase the Reserve Fund upon the issuance of Additional Bonds so that said Reserve Fund contains at all times an amount equal to the Maximum Annual Debt Service on all Bonds outstanding.

SECTION 3.06. *Proceedings for the Issuance of Additional Bonds.* Whenever the Agency shall determine to issue Additional Bonds pursuant to Section 3.05, the Agency shall adopt a supplemental resolution determining that the issuance of such Additional Bonds is necessary for the completion of the Project or for an addition to the Project, specifying the principal amount of such Additional Bonds and prescribing the terms and conditions of such Additional Bonds and the funds to be established for the security and payment thereof.

Such supplemental resolution shall prescribe the form or forms of such Additional Bonds and shall provide for the distinctive designation, denominations, methods of numbering, date, maturity dates, interest rates, interest

payment dates, places of payment of principal and interest and whether such Additional Bonds are to be bearer Bonds with or without provision for registration or as fully registered Bonds or a combination thereof, and shall also provide for the continuation of the Revenue Fund herein provided for and for the creation or continuation of appropriate retirement funds, interest funds, reserve funds, if any, and any other funds applicable to, and required for the security of the Additional Bonds.

The Agency may by such supplemental resolution prescribe any other provisions respecting the Additional Bonds not inconsistent with the terms of this Resolution, including registration, transfer and exchange provisions and provisions for the payment of principal and interest.

Before such Additional Bonds shall be issued and delivered, the Agency shall file the following documents with the Trustee:

(a) A resolution of the Agency finding that the issuance of such Additional Bonds is necessary to provide for the completion of the Project or for an addition to the Project, and setting forth the estimated cost of completion thereof and the estimated date of completion thereof.

(b) The supplemental resolution authorizing such Additional Bonds.

(c) An opinion of counsel setting forth (1) that he has examined the supplemental resolution; (2) that the execution and delivery of the Additional Bonds have been sufficiently and duly authorized by the Agency; (3) that the issuance of the Additional Bonds is authorized by the Act; (4) that said Additional Bonds, when duly executed and delivered by the Agency, will be valid and binding obligations of the Agency, payable from Revenues in accordance with the terms of this Resolution and the supplemental resolution authorizing the issuance of such Additional Bonds; (5) that upon the delivery of the Additional Bonds the aggregate principal amount of Bonds then outstanding will not exceed the amount at the time permitted by law or the then limits of indebtedness of the Agency, if any; and (6) that the Agency, upon the completion of the Project or the addition thereto to be financed by said Additional Bonds, will be authorized to use and operate the Project in the case of default by the City and to use and apply the Revenues from the Project for the payment of the Bonds.

(d) A Certificate of the Treasurer certifying that the requirements set forth in Section 3.05 have been either met or provided for, together with a copy of the revised Lease to the City required by said section.

SECTION 3.07. *Validity of Bonds.* The validity of the authorization and issuance of any of the Bonds shall not be dependent on or affected in any way by (a) any proceedings taken by the Agency or its agents for the acquisition, construction or completion of the Project or any part thereof, or (b) any contracts made by the Agency or its agents in connection therewith, or (c) the failure to complete the Project or any part thereof.

ARTICLE IV

REDEMPTION OF BONDS PRIOR TO MATURITY

SECTION 4.01. *Terms of Redemption.* In the event of loss of, substantial damage to or condemnation of the whole or any substantial part of the Project, or of the Public Improvements of Which the Facilities Will Be a Portion so as to render the same unusable, as more fully set out in Sections 6.04 and 6.12, all or any part of the Bonds at that time outstanding, may, at the option of the Agency, be called and redeemed prior to maturity on any succeeding date, at a redemption price equal to the principal amount thereof with accrued interest to the date of redemption plus the premium applicable thereto as hereinafter set forth in the succeeding paragraph of this section, or, if none is applicable, at a premium (percentage of par value) of four percent (4%), but only in the manner and only from the funds as hereinafter provided in Sections 6.04 and 6.12. If less than all Bonds are called pursuant to this paragraph, Trustee shall determine a principal amount in each maturity to be called so that approximately equal annual debt service will prevail. Bonds to be then called in each maturity will be selected by lot.

Except as set forth in the preceding paragraph, Bonds maturing on or prior to July 1, 1988, are not subject to call or redemption prior to maturity. Bonds maturing on or after July 1, 1989, may be called prior to maturity, at the option of the Agency, as a whole, or in part, in inverse order of maturity and by lot within a single maturity, and redeemed from funds derived by the Agency from any source, on July 1, 1988, or on any interest payment date thereafter, upon payment of a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date, plus a premium of $\frac{1}{4}$ of 1% of such principal amount for each whole year and for the fraction of a year, if any, remaining from the redemption date to the stated maturity of the Bonds so called for redemption, but in no event shall the premium exceed four percent (4%) of said principal amount.

The date on which Bonds are to be presented for redemption is hereinafter sometimes called the "redemption date".

SECTION 4.02. *Call and Redemption.* The Governing Board of the Agency may by resolution direct the call and redemption prior to maturity of Bonds by the Trustee in such amount as funds are available therefor and shall give notice to the Trustee of such redemption at least forty-five (45) days prior to the redemption date.

SECTION 4.03. *Notice of Redemption.* Notice of redemption prior to maturity (except as provided below) shall be given by publication at least once prior to the redemption date in a financial newspaper or journal, printed in the English language and customarily published on each business day, of general circulation in the City of New York, New York, such publication to be not

less than thirty (30) nor more than sixty (60) days before such redemption date. If any Bond called for redemption is a Fully Registered Bond, notice of redemption thereof shall also be mailed, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, to each registered owner of such Bond, but neither failure to mail such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption of any of the Bonds. The notice of redemption shall (a) state the redemption date; (b) state the redemption price; (c) state the numbers and date of maturity of the Bonds to be redeemed; provided, however, that whenever any call includes all of the outstanding Bonds of any maturity, the numbers of the Bonds need not be stated; (d) require that Bearer Bonds be surrendered with all interest coupons maturing subsequent to the redemption date at the place or places of redemption; (e) state, as to any Fully Registered Bonds redeemed in part only, the registered bond numbers and the principal portion thereof to be redeemed; and (f) state that interest on the Bonds on the principal portion thereof in such notice designated for redemption shall cease to accrue from and after such redemption date and that on said date there will become due and payable on each of said Bonds the principal amount thereof to be redeemed, interest accrued thereon to the redemption date and the premium thereon (such premium to be specified). If at the time of giving notice of redemption no Bonds are outstanding except Fully Registered Bonds, publication of such notice shall be deemed to have been waived if such notice shall have been mailed by registered or certified mail to each registered owner of such Bonds at his address as it appears on the registration books or at such address as he may have filed with the Trustee for that purpose.

The actual receipt by the Holder of any Bond of notice of such redemption shall not be a condition precedent to redemption, and failure to receive such notice shall not affect the validity of the proceedings for the redemption of such Bonds or the cessation of interest on the redemption date. Notice of redemption of Bonds shall be given by the Trustee for and on behalf of the Agency at the expense of the Agency.

A certificate by the Trustee that notice of redemption has been given as herein provided shall be conclusive as against all parties, and no Bondholder whose Bearer or Fully Registered Bond is called for redemption may object thereto or object to the cessation of interest on the redemption date fixed by any claim or showing that he failed to actually receive such notice of call and redemption.

SECTION 4.04. *Partial Redemption of Fully Registered Bonds.* Upon surrender of any Fully Registered Bonds redeemed in part only, the Agency shall execute and the Trustee shall authenticate and deliver to the registered owner thereof, at the expense of the Agency, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion

of the Fully Registered Bond surrendered and of the same interest rate or rates and same maturity or maturities, which new Bond or Bonds may be, at the option of the registered owner, either a Bearer Bond or Bearer Bonds with all unmatured coupons appertaining thereto or a Fully Registered Bond or Fully Registered Bonds or in part a Bearer Bond or Bearer Bonds and the balance a Fully Registered Bond or Fully Registered Bonds. The registered owner of any Fully Registered Bond may, in lieu of surrendering such Bond for a new Bond, endorse on the reverse of such Fully Registered Bond a notation of such partial redemption, in such form as may be satisfactory to the Agency and the Trustee and under such conditions as the Trustee may approve. Such partial redemption shall be valid upon payment of the amount thereby required to be paid to such registered owner; and the Agency and the Trustee shall be released and discharged from all liability to the extent of such payment, irrespective of whether such endorsement shall or shall not have been made upon the reverse of such Fully Registered Bond by such registered owner and irrespective of any error or omission in such endorsement.

SECTION 4.05. *Redemption Fund.* Prior to the publication provided for in Section 4.03 hereof, the Trustee shall establish, maintain and hold in trust a separate fund which is hereby created for the purpose of this Resolution entitled "Redemption Fund", and there shall be set aside in the Redemption Fund moneys for the purpose and sufficient to redeem, at the premiums payable as in this Resolution provided, if any, the Bonds designated in such notice of redemption. Said moneys must be set aside in said fund solely for that purpose and shall be applied on or after the redemption date to the payment (principal and premium, if any) of the Bonds to be redeemed upon presentation and surrender of such Bonds and (except as to Fully Registered Bonds) all interest coupons maturing after the redemption date. Any interest coupon due on or prior to the redemption date shall be paid from the Interest Fund upon presentation and surrender thereof. Any interest due on or prior to the redemption date upon Fully Registered Bonds shall be paid from said Interest Fund. Each Bearer Bond presented must have attached thereto or presented therewith all interest coupons maturing after the redemption date.

SECTION 4.06. *Effect of Redemption.* Notice of redemption having been duly given as aforesaid, and moneys for payment of the principal of and interest and premium payable upon redemption of the Bonds being set aside in the Redemption Fund, the Bonds so called for redemption shall, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice, interest on the Bonds so called for redemption shall cease to accrue, the coupons for interest thereon maturing subsequent to the redemption date shall be void, and said Bonds shall cease to be entitled to any lien, benefit or security under this Resolution, and the Holders of said Bonds shall have no rights

in respect thereof except to receive payment of the redemption price thereof.

All unpaid interest installments represented by coupons which shall have matured on or prior to the date of redemption designated in such notice shall continue to be payable to the respective Holders thereof but without interest thereon.

All Bonds fully redeemed pursuant to the provisions of this Article IV and the appurtenant coupons, if any, shall be cancelled upon surrender thereof and delivered to, or upon the order of, the Agency.

ARTICLE V

USE OF REVENUES

SECTION 5.01. *Revenue Fund.* All Revenues shall be immediately deposited with the Trustee and the Trustee shall credit said moneys to a special fund, designated as the "Revenue Fund". All moneys at any time deposited in the Revenue Fund shall be held in trust for the benefit of the Holders from time to time of the Bonds and the coupons appertaining thereto, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes hereinafter in this Article V set forth.

SECTION 5.02. *Allocation of Moneys in Revenue Fund to Special Funds.* The Trustee shall transfer from the Revenue Fund the following amounts at the times and in the manner hereinafter provided for, and shall deposit such amounts, in the following order of priority, in the following respective funds (which, except for initial payments from bond proceeds, are derived from the Revenue Fund and are subdivisions thereof) each of which Funds shall be disbursed and applied only as herein authorized:

(a) *Interest Fund.* On or before June 1, 1981, the Trustee shall deposit in the Interest Fund hereby established (the initial payment into which is provided for in Section 3.03) a sum sufficient, together with the balance then on hand in said fund, to pay the interest becoming due on the Bonds on the following July 1 and January 1; and on each June 1 thereafter, the Trustee shall deposit in the Interest Fund a sum sufficient, together with the balance then on hand in said fund, to pay the twelve (12) months interest becoming due on the Bonds on the next succeeding July 1 and January 1. No payment need be made into the Interest Fund if the amount contained therein is at least equal to the interest to become due in the next fiscal year upon all of the Bonds then outstanding. Moneys in the Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable or transferring such moneys to the Paying Agents for that purpose.

(b) *Retirement Fund.* On or before June 1 of each year, beginning June 1, 1981, the Trustee shall deposit in the Retirement Fund hereby established a sum suf-

ficient to pay the aggregate amount of principal of the outstanding Bonds maturing on the next succeeding July 1. No payment need be made into the Retirement Fund if the amount contained therein is at least equal to such amount of principal becoming due in the next succeeding fiscal year. Moneys in the Retirement Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal on the Bonds as it shall become due and payable or transferring such moneys to the Paying Agents for that purpose.

(c) *Reserve Fund.* The Trustee shall deposit in the Reserve Fund (the initial payment into which is provided for in Section 3.03) such amounts as may be necessary to maintain on deposit in the Reserve Fund an amount equal to the Maximum Annual Debt Service. The moneys in the Reserve Fund shall be applied solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to this Resolution), for the purpose of paying the principal of the Bonds at their maturities, to the extent that there are insufficient moneys available for such purposes in the Interest Fund, the Retirement Fund or the Revenue Fund. An amount equal to the Maximum Annual Debt Service on the Bonds outstanding shall be maintained at all times in the Reserve Fund by payments from the Revenue Fund from time to time as may be necessary, and any deficiency therein shall be made up from time to time from the Revenue Fund. If requested by the Agency in each of the years prior to completion of construction of the Project, any moneys in excess of the Maximum Annual Debt Service then in the Reserve Fund shall be transferred to the Construction Fund, and thereafter in any year any moneys in excess of the Maximum Annual Debt Service in the Reserve Fund shall be transferred to the Revenue Fund. No payment need be made into the Reserve Fund if and when the aggregate amount of the moneys on deposit therein equals the Maximum Annual Debt Service. Moneys in the Reserve Fund may be used to pay the principal and/or interest on the last maturity or maturities of Bonds outstanding.

(d) *Working Capital Fund.* Commencing after any rent payment under the Lease is paid and each June 1 thereafter, provided that (1) the transfers to the Interest Fund and the Retirement Fund have been made, and (2) the amount required to pay principal and interest on the Bonds in any succeeding year based upon the amount of Base Rental payments provided therefor have been retained, the Trustee shall deposit in the Working Capital Fund from the Revenue Fund, to the extent available, the sums sufficient for the payment of:

(i) All taxes and assessments of any nature whatsoever, including, but not limited to, excise taxes, ad valorem taxes, ad valorem and specific lien special assessments and gross receipts taxes, if any, levied upon the Project or upon the Agency's interest therein or upon the Agency's operation thereof or the Agency's rental income derived therefrom.

(ii) All expenses (not otherwise paid or provided for out of the proceeds of the sale of Bonds of the Agency) incidental to the issuance of the Bonds and all administrative costs of the Agency relating to the Project, including, but without limiting the generality of the foregoing, salaries, wages, expenses, compensation and indemnification of the Trustee under this Resolution, fees and charges of auditors, accountants, architects, attorneys and engineers, and all other necessary administrative charges of the Agency or charges required to be paid by it in order to comply with the terms of the Bonds or of this Resolution and to defend the Agency and its members.

(iii) Insurance premiums, if any, on all insurance required or permitted under the provisions of Section 8 of the Lease, or otherwise.

(iv) All costs and expenses which the Agency may incur in consequence of or because of any default by the City under the Lease, including reasonable attorneys' fees and costs of suit in equity or action at law to enforce the terms and conditions of the Lease.

(v) All sums necessary to maintain an amount of \$5,000 in Working Capital Fund.

The Trustee shall, pursuant to subsection (b) of Section 4 of the Lease, bill the City for any balance of the amounts due to pay any of the foregoing items of Additional Rental when the same become due and, upon receipt of same, deposit such amounts in the Working Capital Fund.

(e) *Operation and Maintenance Fund.* If at any time the Agency shall operate the Project, by reason of default by the City, the Trustee shall deposit in the Operation and Maintenance Fund hereby established, the priority of which shall be the same as the Working Capital Fund above, all amounts which shall be required to provide for the payment of all costs of maintenance and operation of the Project, including costs of repairs and replacements, labor costs and insurance. Moneys in the Operation and Maintenance Fund shall be disbursed by the Trustee to pay such costs upon the Written Request of the Agency.

(f) *Surplus.* Any moneys remaining in the Revenue Fund on January 15, 1982, or on each January 15 thereafter after the above transfers have been made shall be declared surplus and may be (a) used and applied by the Trustee at the direction of the Agency, to the purchase of the Bonds, provided that such Bonds shall not be purchased at a price in excess of the then current redemption price or in excess of the maximum redemption price if such Bonds are not then subject to redemption, or (b) transferred to the Redemption Fund and used to call and redeem Bonds prior to maturity, or (c) transferred to the Construction Fund to be set aside and accumulated therein for future changes, alterations and additions to the Project which the Agency may from time to time deem desirable or (d) used to reimburse City for any Base or Additional Rental previously paid.

SECTION 5.03. *Unclaimed Moneys for Payment of Bonds and Interest.* Any moneys which shall have been set aside for the purpose of paying any particular Bonds, either at maturity thereof, or upon purchase or call for redemption as provided herein, or for the purpose of paying any particular installments of interest on any particular Bonds, shall be held irrevocably in trust for and assigned to the respective Holders of the Bonds or coupons entitled thereto, and if the same shall remain unclaimed by the Holders of such Bonds or of such coupons for a period of six years after the date on which such Bonds or such coupons shall have become payable shall, upon request in writing from the Agency, be paid to the City by the Trustee and thereafter the Holders of such Bonds or such coupons shall look only to the City for payment and then only to the extent of the amounts so received without any interest thereon, and the Trustee shall have no responsibility with respect to such moneys.

ARTICLE VI

COVENANTS OF THE AGENCY

SECTION 6.01. *Punctual Payment.* The Agency shall punctually pay or cause to be paid the principal and interest (and premium, if any) to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of this Resolution; and it shall faithfully observe and perform all of the conditions, covenants and requirements of this Resolution, all supplemental resolutions and the Bonds.

SECTION 6.02. *Against Encumbrances and Sale.* The Agency covenants that the Project or any part thereof, or any real or personal property essential to the operation thereof, shall not be mortgaged or otherwise encumbered, sold, leased, pledged, any charge placed thereon, or disposed of as a whole or substantially as a whole unless such sale or other disposition be so arranged as to provide for a continuance of payments into the Revenue Fund sufficient in amount to permit payment therefrom of the principal of and interest on and premiums, if any, due upon the call and redemption thereof, of the Bonds and any Additional Bonds, payment of which is required to be made out of the Revenues, and also to provide for such payments into the funds as are required under the terms of this Resolution. The Revenues shall not be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used except as authorized by the terms of this Resolution. The Agency further covenants that it will not enter into any agreement which impairs the operation of the Project or any part of it necessary to secure adequate revenues to pay the principal of and interest on the Bonds or which otherwise would impair the rights of the Bondholders with respect to the Revenues or the operation of the Project. If any substantial part of the Project is sold, the payment therefor shall either be used for the acquisition and/or construction of improvements and extensions of the Project

or shall be placed in the appropriate funds and shall be used to pay or call and redeem said Bonds and Additional Bonds in the manner provided in this Resolution and any supplemental resolution.

SECTION 6.03. *Construction of Project.* The Agency shall, or shall cause its agent or agents to, acquire and construct the Project and the Public Improvements of Which the Facilities Will Be a Portion in conformity with the Construction Contract and with all expedition practicable.

The Agency covenants that it has, or will have, all right, title and interest in and to the performance bonds and the labor and materialmen's bonds provided for in the Construction Contract, and hereby agrees to deposit any proceeds therefrom with the Trustee in the Construction Fund.

SECTION 6.04. *To Maintain Insurance.* The Agency shall at all times maintain or cause to be maintained with responsible insurers insurance against accident to, loss of or damage to the Public Improvements of Which the Facilities Will Be a Portion (sometimes referred to in this Section 6.04 as "the property" or "the property covered by the Resolution") as set forth herein. Notwithstanding the generality of the foregoing, the Agency shall not be required to maintain or cause to be maintained more insurance than is specifically referred to below or any insurance unless the same is insurance which is available from reputable insurers on the open market.

The Agency shall keep or cause to be kept a policy or policies of insurance against loss or damage to the property covered by the Resolution resulting from fire, lightning, vandalism, malicious mischief, riot and civil commotion, and such perils ordinarily defined as "extended coverage" and other perils as the Agency and the City may agree should be insured against on forms and in amounts satisfactory to each. Such insurance shall be maintained in an amount not less than \$750,000 or the amount of Agency's outstanding Bonds, whichever amount is the less, subject to deductible conditions of not to exceed \$100,000 for any one loss. The Agency shall also:

(a) Keep or cause to be kept the said Public Improvements insured by earthquake insurance against loss or damage by earthquake in an amount not less than the lesser of the following:

(i) \$750,000, subject to deductible conditions of not to exceed \$100,000 for any one loss; or

(ii) the amount of the outstanding Bonds; and

(b) Maintain or cause to be maintained use and occupancy or business interruption or rental income insurance against the perils of earthquake, fire, lightning, vandalism and malicious mischief and such other perils ordinarily defined as "extended coverage" in an amount equal to not less than one year Base Rental and Additional Rental but such insurance need not be provided

against interruptions of use and occupancy or rental income of fifteen (15) days or less duration; and

(c) Maintain or cause to be maintained public liability insurance of not less than \$2,500,000 combined single limit, bodily injury, personal injury and property damage including umbrella excess liability; and

(d) Maintain or cause to be maintained workmen's compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure employers against liability for compensation under the Workmen's Compensation Insurance and Safety Act now in force in California, or any act hereafter enacted as an amendment or supplement thereto or in lieu thereof, such workmen's compensation insurance to cover all persons employed in connection with the Project and to cover full liability for compensation under any such act aforesaid, based upon death or bodily injury claims made by, for or on behalf of any person incurring or suffering injury or death during or in connection with the Project or the business of the Agency.

(e) At least once every three years, the Agency shall determine the percentage increase or decrease in the appropriate ENR (Engineering News Record) Index or Indexes for the most applicable geographic area, or such other comparable index of construction costs as the Agency may select, for the period from January 1, 1978, to the date of such determination. The minimum amounts of insurance against loss or damage to the property and the maximum permitted deductibles set forth in this Section 6.04 shall thereafter be increased and/or decreased by the percentage so determined, such increases and/or decreases to take effect as of the next applicable policy renewal date; provided, however, that nothing contained herein shall be construed to require that such insurance be maintained in any amount greater than the amount of the outstanding bonds.

All insurance herein provided for shall be effected under policies issued by insurers of recognized responsibility, licensed or permitted to do business in the State of California. The phrase "insurance which is available from reputable insurers on the open market" means standard policies of insurance with standard deductibles offered by reputable insurers in a competitive market.

All policies or certificates issued by the respective insurers for insurance shall provide that such policies or certificates shall not be cancelled or materially changed without at least ten (10) days prior written notice to the Trustee and the Agency, and shall carry loss payable endorsements in favor of the Trustee where applicable. Copies of such policies shall be deposited with the Trustee by the Agency, together with appropriate evidence of payment of the premiums therefor; and, at least ten (10) days prior to the expiration dates of expiring policies or contracts held by the Trustee, copies of renewal or new policies on contracts or certificates, shall be deposited with the Trustee.

All proceeds of insurance with respect to loss or damage to the Project shall be paid to the Trustee (except

that proceeds for any one loss not exceeding \$5,000 need not be used pursuant to the Lease but may be paid to the Agency and applied by it to the repair, restoration or replacement of the property destroyed or damaged). Upon payment thereof to the Trustee, and (1) if the property is to be repaired or rebuilt, the Trustee shall deposit the same in the Construction Fund for application as provided with respect to moneys in such fund, or (2) if the property is not to be repaired or rebuilt, the Trustee shall deposit the same in the Redemption Fund for application as provided for moneys in such funds.

SECTION 6.05. *Discharge of Claims.* In order to fully preserve and protect the priority and security of the Bonds, the Agency shall pay from the proper fund and discharge or cause to be discharged all lawful claims for labor, materials and supplies furnished for or in connection with the Project which, if unpaid, may become a lien or charge upon the Revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. The Agency shall also, from time to time, duly pay and discharge, or cause to be paid and discharged, any taxes, assessments or other governmental charges lawfully imposed upon the Project or upon the Revenues, after the same has become due and payable, except that the Agency may, in good faith, contest any such tax, assessment or governmental charge, as well as any lawful claim for labor, materials or supplies for work completed or materials or supplies furnished which, if unpaid, might by law become a lien or charge upon the Revenues or the Project, or which might impair the security of the Bonds.

SECTION 6.06. *Financial Reports.* Within one hundred twenty (120) days after the close of each fiscal year, the Agency shall furnish to the Trustee, and to any Bondholder who shall make written request therefor prior to the close of such fiscal year, detailed certified reports of audit, based on an examination in accordance with generally accepted auditing standards, prepared by an independent public accountant, covering the operations of the Agency.

SECTION 6.07. *Maintenance of Paying Agents.* The Trustee, subject to the approval of the Agency, shall appoint and at all times have Paying Agents for the payment of the principal of, and the interest (and premium, if any) on, the Bonds in each of the places mentioned in Section 2.02. It shall be the duty of the Trustee to make such credit arrangements with such Paying Agents as may be necessary to assure, to the extent of the moneys held by the Trustee for such payment, the prompt payment of the principal of, and interest (and premium, if any) on, the Bonds presented at any place of payment specified herein.

SECTION 6.08. *Collection of Rentals.* The Agency, if at any time it is operating the Project by reason of default by the City, shall promptly collect all rents and charges due for the use of the facilities of the Project

as the same become due, and shall promptly and vigorously enforce its rights against any tenant or other person who does not pay such rents or charges as they become due. The Agency shall at all times maintain and vigorously enforce all of its rights under the Lease.

SECTION 6.09. *Amendment of Lease.* The Agency shall not consent to the amendment, alteration or modification, in whole or in part, of the Lease, except in the case of any one of the following cases: (a) with the written consent of the Trustee, if, in the opinion of the Trustee, such amendment, alteration or modification does not materially adversely affect the rights of the Holders of the Bonds, (b) as may be necessary in connection with the issuance of Additional Bonds pursuant to the provisions of this Resolution, or (c) with the written consent of the Holders of sixty percent (60%) in aggregate principal amount of the Bonds then outstanding, exclusive of Bonds owned by the Agency or by any of the parties to the Agreement. Any such written consent shall be obtained in the manner provided herein, except that, in cases where no supplemental resolution is provided for, the Agency shall adopt a resolution expressing its consent to the amendment, alteration or modification involved.

SECTION 6.10. *Maintain and Preserve the Project.* The Agency shall, or shall cause Agency's agents, lessees, or sublessees in the case of default, to operate, maintain and preserve the Public Improvements of Which the Facilities Will Be a Portion in good repair and working order and to operate the same in an efficient and economical manner; provided, however, that in the case of default, the Agency or its agents, lessees, or sublessees may lease or rent the Project or any part thereof, or otherwise provide for the operating of the Project or any part thereof.

SECTION 6.11. *Prosecution and Defense of Suits Relating to Title.* The Agency hereby agrees that it shall, upon request of the Trustee, promptly from time to time take such action as may be necessary and proper to remedy or cure any defect in or cloud upon the title to the Project or any part thereof, whether now existing or hereafter developing, and shall prosecute all such suits, actions and other proceedings as may be appropriate for such purpose.

SECTION 6.12. *Eminent Domain.* The Trustee, upon receipt of any moneys as the result of the condemnation of all or any part of the project shall deposit the same in the Redemption Fund created by Section 4.05 and said moneys shall be used as provided in Section 11 of the Lease.

SECTION 6.13. *Maintenance of Revenues.* The Agency shall, if it should operate the Project by reason of default by the City, fix, prescribe and collect rentals or other charges in connection with the services and

facilities furnished from the Project sufficient to pay principal of and interest on the Bonds as they become due, together with all expenses of operation, maintenance and repair of the Project and such additional sums as may be required for the Reserve Fund; provided, however, that all rentals or other charges in connection with the services and facilities furnished by the Project shall be subject to such provisions, if any, relative thereto as may be contained in the Agreement.

SECTION 6.14. *City Budgets.* In the event of a failure by City to perform its covenants relating to budgeting under Section 4(d) of the Lease, the Agency shall promptly take such action as may be necessary to cause such annual budget or appropriation resolution to be amended, corrected or augmented so as to include therein amounts required to be raised by the City in the ensuing fiscal year for the payment of rentals due under the Lease and shall notify the Trustee of the proceedings then taken or proposed to be taken by the Agency. The Agency shall keep the Trustee advised of all proceedings thereafter taken by the Agency.

SECTION 6.15. *Limits on Additional Debt.* The Agency covenants that:

(a) No additional indebtedness evidenced by revenue bonds, revenue notes or any other evidences of indebtedness payable out of the Revenues shall be issued pursuant to said Bond Act or any other law of the State of California having any priority in payment of principal or interest out of the Revenues over the Bonds authorized by this Resolution.

(b) No Additional Bonds, revenue notes or any other evidences of indebtedness payable out of the Revenues shall be issued, except pursuant to Sections 3.05 and 3.06 subject to the limitations thereof, and ranking on a parity with these Bonds.

(c) No refunding bonds, revenue notes or any other evidences of indebtedness payable out of the Revenues shall be issued to refund a part of the Bonds authorized by this Resolution unless the Agency shall have entered into a Lease or revised Lease with the City in and by which the City obligates itself in the manner provided in the Lease to make payments of Base Rental to the Agency for the use of the Project at the times and in the amounts sufficient to provide for the payment of the principal of and interest on Bonds outstanding after such refunding as such principal and interest become due.

SECTION 6.16. *Further Assurances.* The Agency shall make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Resolution, and for the better assuring and confirming unto the Holders of the Bonds of the rights and benefits provided in this Resolution.

SECTION 6.17. *Covenants Covering Arbitrage.* The Agency hereby covenants to the purchasers of the Bonds that it will comply with the requirements of Section 103(c) of the Internal Revenue Code of 1954, as amended, and regulations issued thereunder, as the same may be amended from time to time, so long as any Bonds remain outstanding.

ARTICLE VII

SECURITY FOR DEPOSITS AND INVESTMENT OF FUNDS

SECTION 7.01. *Moneys Deposited To Be Held in Trust.* All moneys deposited under the provisions of this Resolution with the Trustee shall be held in trust and applied only in accordance with the provisions of this Resolution, and shall not be subject to lien or attachment by any creditor of the Agency, other than the lien of the Holders of the Bonds issued pursuant to and secured by this Resolution.

SECTION 7.02. *Security For Deposits.* All moneys held hereunder by the Trustee shall be held in time or demand deposits and shall be continuously and fully secured at all times by such obligations and to the fullest extent as shall be required by law for public deposits, except to the extent that moneys are invested as herein-after provided.

SECTION 7.03. *Investment of Funds.* Moneys held in any fund created hereunder shall be invested with reasonable diligence by the Trustee in Federal Securities to the extent permitted by law for public funds or held or deposited pursuant to Section 7.02 hereof in such a manner as, in the opinion of the Trustee, will maximize interest returns. All such investments shall mature not later than the date or dates when the moneys held in such funds will be required for the purposes in this Resolution provided.

SECTION 7.04. *Investments and Income as Part of Funds; Liquidation.* Except as otherwise herein expressly provided, moneys in any fund created hereunder shall be deemed at all times to be a part of such fund and the interest and income accruing thereon and any profit realized from the liquidation of any such investment shall be credited to such fund and any loss resulting from the liquidation of any such investment shall be charged to such fund. For the purposes of any such investment, obligations shall be deemed to mature at the earliest date on which the obligor is on demand irrevocably required to pay a fixed sum in discharge of the whole of such obligations.

In computing the balance in any such fund, obligations shall be valued at the cost value thereof.

The Trustee shall sell at the best price obtainable, or present for redemption, any obligations so purchased as

an investment whenever it shall be requested in writing by the Agency so to do or whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any such fund. The Trustee shall not be liable or responsible for making any investment or for any loss resulting therefrom, if such investment is made in conformity with this Resolution. The Trustee shall advise the Agency in writing, when reasonably requested to do so, of the details of all investments held for the credit of any such funds in the custody of the Trustee under the provisions of this Resolution as of the end of the preceding month.

SECTION 7.05. *Reports from Trustee.* Throughout the period of the construction of the Public Improvements and for one year there following, the Trustee shall submit to the Agency a monthly report of all the funds held by the Trustee showing receipts, disbursements, and investments. Following said one year period such reports shall be submitted to the Agency at least once every six months.

ARTICLE VIII

CONCERNING THE TRUSTEE

SECTION 8.01. *Acceptance of Trusts by Trustee.* The Trustee accepts and agrees to execute the trusts imposed upon it by this Resolution, but only upon the terms and conditions and subject to the provisions of this Resolution, to all of which the parties hereto and the respective Holders of the Bonds agree. All funds created under this Resolution shall be held by the Trustee and administered as trust funds as herein provided.

SECTION 8.02. *Absence of Responsibility of Trustee.* The Trustee shall be under no obligation to effect or maintain insurance, or to renew any policies of insurance, or to inquire as to the sufficiency of any policies of insurance carried by the Agency under the Lease. The Trustee shall not have any responsibility in respect to the validity or sufficiency of this Resolution or the due execution or acknowledgement thereof by the Agency, or in respect of the validity of any Bonds authenticated and delivered by the Trustee in accordance with the provisions of this Resolution, or of the coupons appertaining thereto. The recitals, statements and representations contained herein and in the Bonds (excluding the Trustee's certificate on the fully registered Bonds) shall be taken and construed as made by and on the part of the Agency and not by the Trustee and the Trustee does not assume nor shall it be under any responsibility for the correctness of the same.

SECTION 8.03. *Trustee Not Responsible for Actions of Agency.* The Trustee shall not be liable or responsible because of the failure of the Agency or of any of its officers, employees or agents to make any collections or deposits, or to perform any act herein required of the

Agency or its officers, directors, employees or agents. The Trustee shall not be responsible for the application of any of the proceeds of the Bonds or any moneys deposited with it and paid out, invested, withdrawn or transferred in accordance with the provisions of this Resolution. The immunities and exemptions from liability of the Trustee hereunder shall extend to its directors, officers, employees and agents.

SECTION 8.04. *Compensation of Trustee.* Subject to the provisions of any contract between the Agency and the Trustee, the Agency shall pay to the Trustee, in the manner provided in this Resolution, reasonable compensation for all services performed by it hereunder, and also all of its reasonable expenses, charges and other disbursements and those of its attorneys, agents, and employees incurred in and about the acceptance, administration and execution of the trusts hereby created and the performance of its powers and duties hereunder, and shall indemnify and hold the Trustee harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder. Notwithstanding the foregoing, the Trustee agrees that so long as there is no default hereunder the Trustee shall be entitled to receive for all services hereunder or in connection herewith a reasonable fee to be computed as set forth in a separate contract.

SECTION 8.05. *Duties and Responsibilities of Trustee.* The Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Resolution. The Trustee shall exercise such of the rights and powers vested in it by this Resolution, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

No provision of this Resolution shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct.

SECTION 8.06. *Certain Rights of Trustee.* The Trustee

(a) may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, coupon or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) may consult with counsel and any opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with such opinion;

(c) shall be under no obligation to exercise any of the rights or powers vested in it by this Resolution at the request, order or direction of any of the Bondholders, pursuant to the provisions of this Resolution,

unless such Bondholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred therein or thereby;

(d) shall not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Resolution.

SECTION 8.07. *Eligibility for Appointment as Trustee.* The Trustee hereunder shall at all times be a corporation organized and doing business under the laws of the United States or the State of California authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$100,000,000, subject to supervision or examination by Federal or State authority and having its principal office and place of business in the State of California. If such corporation publishes reports of its condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this section the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this section, the Trustee shall resign immediately in the manner and with the effect below specified.

SECTION 8.08. *Resignation and Removal; Appointment of successor Trustee.* (a) The Trustee, or any trustee hereafter appointed, may at any time resign by giving written notice of resignation to the Agency. Upon receiving such notice of resignation, the Agency shall promptly appoint a successor trustee (which may, but shall not be required to be the Auditor and/or Treasurer of the Agency to exercise the duties of Trustee if permitted by subsection (c) of this Section) by written instrument, in duplicate, executed by order of the Governing Board of the Agency, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee. If no successor trustee shall have been so appointed and have accepted appointment within thirty (30) days after the resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor trustee, or any Bondholder who has been a bona fide Holder of a Bond or Bonds, for at least six (6) months may on behalf of himself and all others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper, appoint a successor trustee.

(b) In case at any time any of the following shall occur—

(i) The Trustee shall cease to be eligible and shall fail to resign after written request therefor by the Agency or by any such Bondholder, or

(ii) The Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, the Agency may remove the Trustee and appoint a successor trustee (which may, but shall not be required to be the Auditor and/or Treasurer of the Agency if permitted under subsection (c) of this Section) to exercise the duties of Trustee by written instrument, in duplicate, executed by order of the Governing Board of the Agency, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee; or any Bondholder who has been a bona fide Holder of a Bond or Bonds for a least six (6) months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor trustee.

(c) The Agency may appoint the Auditor and/or Treasurer of the Agency to exercise the duties of the Trustee if:

(i) The Trustee or any successor trustee cannot legally perform the duties required hereunder because of the occurrence of either of the following, subsequent to the effective date of this Resolution: (aa) the enactment of any constitutional provision, law, rule or regulation of any governmental agency having jurisdiction thereof, or (bb) any judicial decision, whether or not involving this Resolution, which is applicable to this Resolution and the Trusteeship created hereunder; or

(ii) The services of the Trustee or any successor trustee cannot be obtained at a reasonable cost. Such reasonable cost shall be determined by comparing like costs charged by financial institutions similarly situated in the United States performing duties of a comparable nature.

(d) The Holders of a majority in aggregate principal amount of the Bonds at the time outstanding may at any time remove the Trustee and appoint a successor trustee; provided, however, (i) such successor shall be eligible for appointment under this Resolution, and (ii) the fees of the successor trustee shall be within the amounts budgeted therefor by the Agency, and (iii) that if the Agency objects to the successor trustee it may appoint a successor trustee (which may, but shall not be required to be, the Auditor and/or Treasurer of the Agency if permitted under subsection (c) of this section) to exercise the duties of trustees.

(e) Any resignation or removal of the Trustee and appointment of a successor trustee pursuant to any of

the provisions of this section shall become effective upon notice of or acceptance of appointment by the successor trustee as provided below.

SECTION 8.09. *Acceptance of Appointment by Successor Trustee.* Any successor corporate trustee appointed as above provided shall execute, acknowledge and deliver to the Agency and to its predecessor trustee an instrument accepting such appointment hereunder and expressly stating that it fully satisfies the requirements for trustees as provided by this Resolution, and, if the Auditor and/or Treasurer are appointed to exercise the duties of Trustee hereunder, the Agency shall notify such officer or officers; and thereupon the resignation or removal of the predecessor trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, duties and obligations of its predecessor hereunder, with like effect as if originally named as trustee herein; but, nevertheless, on the written request of the Agency or of the successor trustee, the trustee ceasing to act shall, upon payment of its charges then unpaid, execute, acknowledge and deliver an instrument transferring to such successor trustee all the rights and powers of the trustee so ceasing to act. Upon request of any such successor trustee, the Agency shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor trustee all such rights and powers. Any trustee ceasing to act shall, nevertheless, retain a lien upon all property or funds held or collected by such trustee to secure any amounts then due it.

The Trustee ceasing to act shall upon such vesting thereafter be fully relieved and discharged of and from all further liability or responsibility either to the Agency or to the Holders of the then outstanding Bonds except to the extent of liability, if any, arising prior to such vesting in the successor trustee.

No successor trustee shall be appointed under the provisions of this Resolution or be substituted for the present Trustee hereunder or for any successor of the present Trustee hereunder unless the Commissioner of Corporations of the State of California shall have been notified in writing of such proposed appointment or substitution and shall not have disapproved thereof within a period of fifteen (15) days after the giving of such notice.

SECTION 8.10. *Merger or Consolidation of Trustee.* Any corporation into which the Trustee may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Trustee shall be a party, or any corporation succeeding to the corporate trust business of the Trustee, shall be the successor trustee hereunder, provided such corporation shall be eligible, without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

SECTION 8.11. *Requirements as to Trustee's Records.* The records of the Trustee pertaining to the Bonds and to the Trustee hereunder shall be available to and open for inspection at all times by the Agency, the City and any other public body, agency or commission having jurisdiction, and the Trustee shall retain in its possession all financial statements furnished to it pursuant to this Resolution.

ARTICLE IX

EXECUTION OF INSTRUMENTS BY BONDHOLDERS AND PROOF OF OWNERSHIP OF BONDS

SECTION 9.01. *Method of Execution of Instruments by Bondholders.* Any request, direction, consent or other instrument in writing required or permitted by this Resolution to be signed or executed by Bondholders may be in any number of concurrent instruments of similar tenor, and may be signed or executed by such Bondholders in person or by agent appointed by an instrument in writing. Proof of the execution of any such instrument and of the ownership of Bonds shall be sufficient for any purpose of this Resolution, and shall be conclusive, in favor of the Trustee with regard to any action taken under such instrument, if made in the following manner:

(a) The fact and date of the execution by any person of any such instrument may be proved by the verification of any officer in any jurisdiction who, by the laws thereof, has power to take affidavits within such jurisdiction, to the effect that such instrument was subscribed and sworn to before him, or by an affidavit of a witness to such execution.

(b) The fact of the holding of bearer Bonds by any Bondholder and the amount and the numbers of such Bonds and the date of his holding the same (unless such Bonds be registered) may be proved by the affidavit of the person claiming to be such Holder, if such affidavit shall be deemed by the Trustee to be satisfactory, or by a certificate executed by any trust company, bank, banker or any other depository, wherever situated, if such certificate shall be deemed by the Trustee to be satisfactory, showing that at the date therein mentioned such person had on deposit with such trust company, bank, banker or other depository the Bonds described in such certificate. The Trustee may conclusively assume that such ownership continues until written notice of the contrary is served upon the Trustee. The ownership of registered Bonds shall be proved by the registration books kept by the Trustee under the provisions of this Resolution.

Nothing contained in this Article shall be construed as limiting the Trustee to such proof, it being intended that the Trustee may accept any other evidence of the matters herein stated which may seem sufficient. Any request or consent of the Holder of any Bond shall bind every future Holder of the same Bond in respect of any-

thing done by the Trustee in pursuance of such request or consent.

ARTICLE X

SUPPLEMENTAL RESOLUTIONS

SECTION 10.01. *Without Consent of Bondholders.* The Agency and the Trustee, may, from time to time and at any time, without the consent of Bondholders as hereinafter required in this Article, enter into resolutions or agreements supplemental hereto (which supplemental resolutions or agreements shall thereafter form a part hereof):

(a) to cure any ambiguities or defects or inconsistent provisions in this Resolution or to insert such provisions clarifying matters or questions arising under this Resolution as are necessary or desirable to accomplish the same or to make provisions of this Resolution conform to the provisions of the Lease, or

(b) to grant or to confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Bondholders or the Trustee.

Nothing contained in this Section 10.01 or the following Section 10.02 shall permit, or be construed as permitting: (a) an extension of the maturity of the principal of or interest on any outstanding Bonds, or (b) a reduction in the principal amount or redemption price of any outstanding Bonds or the rate of interest thereon, or (c) a reduction in the aggregate principal amount of the Bonds required for consent to such a supplemental resolution or agreement. Nothing herein contained, however, shall be construed as making necessary the approval by Bondholders of the execution of any supplemental resolutions or agreements when the same is expressly authorized by this Resolution, including, without limitation, the supplemental resolution referred to in Section 3.05 and 3.06.

SECTION 10.02. *With Consent of Bondholders.* Subject to the terms and conditions contained in this section, and not otherwise, the Holders of not less than sixty percent (60%) in aggregate principal amount of the Bonds then outstanding (exclusive of any Bonds owned by the Agency or by any of the parties to the Agreement) shall have the right, from time to time, anything contained in this Resolution to the contrary notwithstanding, to consent to and approve the execution by the Agency and the Trustee of such resolutions or agreements supplemental hereto as shall be deemed necessary or desirable by the Agency for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Resolution or in any supplemental resolution or agreement.

If at any time the Agency shall request the Trustee to enter into any supplemental resolution or agreement for any of the purposes of this section, the Trustee shall, at the expense of the Agency, cause notice of the proposed execution of such supplemental resolution or agreement to be published in a daily financial journal or newspaper of general circulation in the City of New York, New York, and shall also cause a similar notice to be mailed, postage prepaid, (1) to all Holders of Fully Registered Bonds, then outstanding, at their addresses as they appear on the registration books hereinabove provided for, (2) to such Bondholders as have, within two (2) years preceding such transmission, filed their names and addresses with the Trustee for that purpose, and (3) to each Bondholder whose name and address the Trustee shall receive and preserve in its capacity as Paying Agent hereunder. Such notice shall briefly set forth the nature of the proposed supplemental resolution or agreement and shall state that a copy thereof is on file at the office of the Trustee for inspection by all Bondholders. The Trustee shall not, however, be subject to any liability to any Bondholder by reason of its failure to mail the notice required by this section, and any such failure shall not affect the validity of such supplemental resolution or agreement when consented to and approved as provided in this section.

Whenever at any time within one (1) year after the date of the first publication of such notice, the Agency shall deliver to the Trustee an instrument or instruments purporting to be executed by the Holders of not less than sixty percent (60%) in the aggregate principal amount of the Bonds then outstanding (exclusive of Bonds owned by the Agency or by any of the parties to the Agreement), which instrument or instruments shall refer to the proposed supplemental resolution or agreement described in such notice, and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof referred to in such notice as on file with the Trustee, thereupon, but not otherwise, the Trustee may execute such supplemental resolution or agreement in substantially such form, without liability or responsibility to any Holder of any Bond, whether or not such Holder shall have consented thereto.

If the Holders of not less than sixty percent (60%) in aggregate principal amount of the Bonds outstanding at the time of the execution of such supplemental resolution or agreement (exclusive of Bonds owned by the Agency or by any of the parties to the Agreement) shall have consented to and approved the execution thereof as herein provided, no Holder of any Bond shall have any right to object to the execution of such supplemental resolution or agreement, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Agency from executing the same or from taking any action pursuant to the provisions thereof.

Upon the execution of any supplemental resolution or agreement pursuant to the provisions of this section, this

Resolution shall be, and be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under this Resolution of the Agency and the Trustee and all Holders of Bonds then outstanding shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such modifications and amendments.

SECTION 10.03. *Approval by Bond Counsel.* The Trustee shall be entitled to receive, and shall be fully protected in relying upon, the opinion of Bond Counsel, as conclusive evidence that any such proposed supplemental resolution or agreement complies with the provisions of this Resolution, and that it is proper for the Trustee, under the provisions of this Article, to join in the execution of such supplemental resolution or agreement.

SECTION 10.04. *Approval by Agency and Bondholders.* Notwithstanding anything contained in the foregoing provisions of this Resolution, the rights and obligations of the Agency and of the Holders of the Bonds, and the terms and provisions of the Bonds, and this Resolution or any supplemental resolution or agreement, may be modified or altered in any respect with the consent of the Agency, the Trustee and the consent of the Holders of all of the Bonds then outstanding.

ARTICLE XI

DEFEASANCE

SECTION 11.01. *Payment of Bonds and Discharge of Resolution.* If the Agency shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of the Bonds and coupons, the principal and interest and redemption price, if any, to become due thereon, then the pledge of and lien upon revenues, the right, title and interest of the Trustee, and all other rights granted hereby, shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall cause an accounting for such period or periods as shall be requested by the Agency, to be prepared and filed with the Agency, and the Trustee, upon the request of the Agency, shall release this Resolution and execute and deliver to the Agency all such instruments as may be desirable to evidence such release, discharge and satisfaction; and the Trustee and the Paying Agent shall pay over or deliver to the Agency all moneys or securities held by them pursuant to this Resolution which are not required for the payment or redemption of Bonds or coupons not theretofore surrendered for such payment or redemption.

SECTION 11.02. *Bonds, Coupons and Redemption Price Deemed to be Repaid.* Bonds or coupons for the payment and discharge of which upon maturity, or upon redemption prior to maturity, provision has been made through the setting apart in a reserve fund or special trust

account created pursuant to this Resolution or otherwise to insure the payment thereof, of moneys sufficient for the purpose or through the irrevocable segregation for that purpose in some sinking fund or other fund or trust account of moneys sufficient therefor with the Trustee or otherwise shall, as provided in Section 1.02, no longer be deemed to be outstanding and unpaid; provided, however, that if any such Bonds are to be redeemed prior to the maturity thereof, the Agency shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly given or provision satisfactory to the Trustee shall have been made for the giving of such notice; and provided, further, that, if the maturity or redemption date of any such Bond shall not have arrived, provision shall have been made by the Agency by deposit with the Trustee or Paying Agent, or other method satisfactory to the Trustee, for the payment to the Holder of any such Bonds and coupons, upon surrender thereof, whether or not prior to the maturity or redemption date thereof, of the full amount to which they would be entitled by way of principal, redemption price or interest to the date of such maturity or redemption, and provision shall have been made by the Agency, satisfactory to the Trustee, for the publication, at least twice, at an interval of not less than seven (7) days between publications, in a daily financial journal or daily newspaper of general circulation published in the City of New York, State of New York, of a notice to the Holders of such Bonds and coupons that such moneys are so available for such payment.

Moneys held for payment or redemption in accordance with the provisions of this section shall be deposited or invested by the Trustee, pursuant to Article VII hereof, to mature or be withdrawable, as the case may be, not later than the time when needed for such payment or redemption. Net interest earned on such investments shall remain in such special fund, if needed, or in lieu thereof shall be paid to the Revenue Fund.

All Bonds and Coupons paid or exchanged, as the case may be, upon surrender at maturity shall be cancelled and delivered to, or upon the order of, the Agency.

ARTICLE XII

EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS

SECTION 12.01. *Events of Default and Acceleration of Maturities.* If one or more of the following events (herein called "events of default") shall happen, that is to say—

(a) if default shall be made in the due and punctual payment of the principal of, or premium (if any) on, any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise; or

(b) if default shall be made in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable, and such default shall have continued for a period of thirty (30) days; or

(c) if default shall be made by the Agency in the observance of any of the covenants, agreements or conditions on its part in the Resolution or in the Bonds contained, and such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Agency by the Trustee, or to the Agency and the Trustee by the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time outstanding; or

(d) if the Agency fails to bring suit or other legal proceedings against the City for failure by the City to budget, appropriate or pay the amounts due the Agency under the Lease and such failure continues for a period of thirty (30) days after the City's failure to so budget, appropriate or pay; or

(e) if, under the provisions of any law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Agency of the whole or any substantial part of its property, and such custody or control shall not be terminated or stayed within sixty (60) days from the date of assumption of such custody or control;

then and in each and every such case during the continuance of such event of default, the Trustee may or the Holders of not less than a majority in aggregate principal amount of the Bonds at the time outstanding shall be entitled, upon notice in writing to the Agency, to declare the principal of all of the Bonds then outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Resolution or in the Bonds contained to the contrary notwithstanding.

This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, the Agency shall pay or deposit with Trustee a sum sufficient to pay all principal on the Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee, or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Holders of not less than a majority in aggregate principal amount of the Bonds then outstanding, by written notice to the Agency and to the Trustee, may, on behalf of the Holders of all of the Bonds, rescind and annul such declaration and its consequences; but no such rescission and annulment shall ex-

tend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

SECTION 12.02. *Suits at Law or in Equity and Mandamus.* In case one or more of the events of default shall happen, then, and in every such case, the Trustee may, and upon written request of not less than twenty percent (20%) in an aggregate principal amount of the Bonds then outstanding (exclusive of Bonds owned by the Agency or by any parties to the Agreement), shall proceed to protect and enforce the rights vested in Bondholders by this Resolution by appropriate judicial proceeding. The provisions of this Resolution and all resolutions or orders in the proceedings for the issuance of the Bonds shall constitute a contract with the Holders of the Bonds, and such contract may be enforced by any Bondholder by mandamus, injunction or other applicable legal action, suit, proceeding or other remedy.

SECTION 12.03. *Non-waiver.* No delay or omission of the Trustee or of any Holder of any of the Bonds or coupons to exercise any right or power arising upon the happening of any event of default shall impair any such right or power or shall be construed to be a waiver of any such event of default or an acquiescence therein, and every power and remedy given by this Article XII to the Trustee or to the Holders of Bonds may be exercised from time to time and as often as shall be deemed expedient by the Trustee or the Holders of Bonds.

SECTION 12.04. *Remedies Not Exclusive.* No remedy herein conferred upon or reserved to the Trustee or to the Holders of Bonds is intended to be exclusive of any other remedy, and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise.

ARTICLE XIII

MISCELLANEOUS PROVISIONS

SECTION 13.01. *Liability of Agency Limited to Revenues.* Notwithstanding anything in this Resolution contained, the Agency shall not be required to advance any moneys derived from any source of income other than the Revenues, for the payment of the principal of or interest on the Bonds. Nevertheless, the Agency may, but shall not be required to, advance for any of the purposes hereof any other funds of the Agency which may be made available to it for such purposes.

SECTION 13.02. *Successor to Agency.* All of the covenants, stipulations, obligations and agreements contained in this Resolution by or in behalf of or for the

benefit of the Agency shall bind or inure to the benefit of the successor or successors of the Agency from time to time; and any officer, board, corporation, commission, authority, agency or instrumentality to whom or to which any power or duty affecting such covenants, stipulations, obligations and agreements shall be transferred by or in accordance with law.

SECTION 13.03. *Notice.* Any notice, demand, direction, request or other instrument authorized or required by this Resolution to be given to or filed with the Agency, the City or the Trustee shall be deemed to have been sufficiently given or filed for all purposes of this Resolution if and when delivered to or sent by registered mail, return receipt requested to:

City—City Clerk, City Hall, 505 Forest Avenue, Laguna Beach, California 92651.

Authority—Secretary of the Agency, 2061 Business Center Drive, Irvine, CA 90271.

Trustee—At its then principal office in Los Angeles, California or such other address as Trustee shall designate in writing for such purpose.

All documents received by the Trustee under the provisions of this Resolution shall be retained in its possession, subject at all reasonable times to the inspection of the Agency, any Bondholder, and the agents and representatives thereof.

SECTION 13.04. *Severability.* In case any one or more of the provisions of this Resolution or of the Bonds or coupons shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any other provision of this Resolution or of said Bonds or coupons, but this Resolution and said Bonds and coupons shall be construed and enforced as if such illegal or invalid provisions had not been contained therein. In any case any covenant, stipulation, obligation or agreement contained in the Bonds or in this Resolution shall for any reason be held to be in violation of law, then such covenant, stipulation or obligation or agreement shall be deemed to be the covenant, stipulation, obligation or agreement of the Agency to the full extent permitted by law.

SECTION 13.05. *Personal Liability.* No member of the Agency and no officer, agent or employee thereof, or of the City, shall be individually or personally liable for the payment of the principal of or interest on the Bonds; but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law.

SECTION 13.06. *Validity of Multiple Copies.* This Resolution may be executed in multiple counterparts, each of which shall be regarded for all purposes as an original; and such counterparts shall constitute but one and the same instrument.

SECTION 13.07 *Headings.* Any headings preceding the texts of the several Articles hereof, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Resolution, nor shall they affect its meaning, construction or effect.

The foregoing Resolution is adopted by the Aliso Water Management Agency this 5th day of January, 1978.

Chairman
Aliso Water Management Agency

[Seal]

Attest:

Secretary
Aliso Water Management Agency

SECRETARY'S CERTIFICATE

I, _____, Secretary of Aliso Water Management Agency, hereby certify that the foregoing is a full, true and correct copy of a Resolution duly adopted at an adjourned regular meeting of the members of said Agency duly and regularly held at the regular meeting place thereof on the 5th day of January, 1978, of which meeting all of the members of said Agency had due notice and at which a majority thereof was present; and that at said meeting said Resolution was adopted by the following vote:

Ayes:

Noes:

Absent:

I further certify that I have carefully compared the foregoing Resolution with the original minutes of said meeting on file and of record in my office; that said Resolution is a full, true and correct copy of the original Resolution adopted at said meeting and entered in said minutes; and that said Resolution has not been amended, modified or rescinded since the date of its adoption, and the same is now in full force and effect.

WITNESS my hand and the seal of the Aliso Water Management Agency this _____ day of _____, _____.

Secretary
Aliso Water Management Agency

[Seal]

IN WITNESS WHEREOF, Trustee has caused this Indenture (called Resolution) to be executed and its corporate seal affixed.

Crocker National Bank
Trustee

By _____

Trust Officer

Date of signing

[Seal]

EXHIBIT A

[FORM OF BEARER BOND]

No. _____ \$5,000

UNITED STATES OF AMERICA
STATE OF CALIFORNIA
COUNTY OF ORANGE

ALISO WATER MANAGEMENT AGENCY
SEWERAGE FACILITIES REVENUE BOND,
SERIES A

ALISO WATER MANAGEMENT AGENCY, a duly constituted public entity and public agency created by the City of Laguna Beach, the El Toro Water District, the Emerald Bay Services District, the Irvine Ranch Water District, the Los Alisos Water District, the Moulton-Niguel Water District, and the South Coast County Water District in the State of California, (herein called the "Agency"), for value received, hereby promises to pay (but only out of the Revenues hereinafter referred to) to the bearer hereof, on July 1, 19__ (subject to the right of prior redemption hereinafter mentioned), the principal sum of Five Thousand Dollars (\$5,000), together with interest thereon from the date hereof until the principal hereof shall have been paid, or provided for, in accordance with the Resolution hereinafter referred to, at the rate of _____ percent (___%) per annum, payable annually on January 1, 1979 and thereafter semiannually on July 1 and January 1 in each year. Interest due on or before the maturity of this Bond shall be payable only according to the tenor, and upon presentation and surrender, of the annexed interest coupons as they severally become due. The principal hereof and interest hereon and any premium upon the redemption hereof prior to maturity are payable at the principal offices of the Trustee, Crocker National Bank, in the Cities of Los Angeles and San Francisco, California, or, at the option of the Holder, at the offices of the Paying Agents of the Agency in the City

of New York, New York; or the City of Chicago, Illinois, in lawful money of the United States of America.

This Bond is one of a duly authorized issue of Sewerage Facilities Revenue Bonds (herein called the "Bonds") aggregating \$4,250,000 in principal amount. Said issue of Bonds is regularly issued pursuant to the provisions of the Revenue Bond Law of 1941 (herein called the "Bond Law"), and pursuant to a Resolution of the Agency authorizing the issuance of the Bonds (herein called the "Resolution") entitled: "Resolution of the Aliso Water Management Agency Constituting Its Indenture Providing the Terms and Conditions for the Issuance of \$4,250,000 Revenue Bonds, Series A". Reference is hereby made to the Resolution (a copy of which is on file at said offices of the Trustee and the offices of the Secretary of the Agency and City Clerk of the City of Laguna Beach), to any resolutions supplemental thereto and to the Bond Law for a description of the terms and conditions under which the Bonds are issued, the provisions with regard to the Revenues, as that term is defined in the Resolution, and the rights of the holders of the Bearer Bonds and the coupons thereof, and the rights of the owners of the Fully Registered Bonds; and all the terms of the Resolution and the Bond Law are hereby incorporated herein and constitute a contract between the Agency and the holder from time to time of this Bond, and to all the provisions thereof the holder of this Bond, by his acceptance hereof, consents and agrees.

Said Resolution is adopted under and this Bond is issued under and is to be construed in accordance with the laws of the State of California.

This Bond and the interest hereon and all other Bonds and the interest thereon (to the extent set forth in the Resolution) are payable from, and are secured by a pledge of and lien upon, the Revenues derived by the Agency from the Project (as that term is defined in the Resolution); and all such Revenues constitute a trust fund, in accordance with the provisions of the Resolution and the Bond Law, for the security and payment or redemption of, and for the security and payment of interest on, the Bonds.

This Bond is a special obligation of the Agency only, and is not a liability of any other public agency, or a pledge of or lien against the property or funds of the Agency, except to the extent of the pledge of and lien upon the Revenues, as provided by the Resolution. Neither the payment of the principal of this Bond, or any part thereof, nor any interest or premium thereon constitutes a debt, liability or obligation of the City of Laguna Beach, the El Toro Water District, the Emerald Bay Services District, the Irvine Ranch Water District, the Los Alisos Water District, the Moulton-Niguel Water District, or the South Coast County Water District, the public agencies who are parties to the Agreement creating the Agency.

The Bonds of the issue of which this Bond is one are redeemable prior to maturity in the event of loss of or damage to or condemnation of the Project on any suc-

ceeding date, as more fully set out in the Resolution, for the principal amount thereof and accrued interest to the date of redemption plus the premium applicable thereto, as hereinafter set forth in the succeeding paragraph, or, if none is applicable, at a premium (percentage of par value) of four percent (4%), at the option of the Agency, as a whole, or in part but only in the manner and only from the funds as provided in said Resolution.

Except as set forth in the preceding paragraph, Bonds maturing on or prior to July 1, 1988, are not subject to call or redemption prior to maturity. Bonds maturing on or after July 1, 1989, may be called prior to maturity at the option of the Agency, as a whole, or in part in inverse order of maturity and by lot within a single maturity, and redeemed from funds derived by the Agency from any source, on July 1, 1988, or any interest payment date thereafter, upon payment of a redemption price equal to the principal amount thereof plus a premium of $\frac{1}{4}$ of 1% of such principal amount for each whole year and for the fraction of a year, if any, remaining from the redemption date to the stated maturity of the Bonds so called for redemption, but in no event shall the premium exceed four percent (4%) of such principal amount. Notice of call and redemption prior to maturity shall be given as provided in the Resolution.

This Bond and the coupons hereto attached are negotiable instruments and shall be negotiable by delivery. This Bond (issued in the form of a bearer bond and herein sometimes referred to as "Bearer Bond"), is not registrable by endorsement. Fully Registered Bonds may be exchanged for a like aggregate principal amount of Bearer Bonds of the same series, interest rate or rates and maturity or maturities bearing all unmatured coupons or for a like aggregate principal amount of Fully Registered Bonds of other authorized denominations of the same series, interest rate or rates and maturity or maturities and Bearer Bonds bearing all unmatured coupons may be exchanged for a like aggregate principal amount of Fully Registered Bonds of authorized denomination of the same series, interest rate or rates and maturity or maturities, all as more fully set forth in the Resolution; provided, however no such exchange shall be made between the fifteenth day preceding any interest payment date and such interest payment date. Such exchange shall be free of any costs or charges to the person, firm or corporation requesting such exchange, except for any tax or governmental charge that may be imposed in connection with such exchange.

The rights and obligations of the Agency and of the holders and registered owners of the Bonds may be modified or amended at any time in the manner, to the extent and upon the terms provided in the Resolution, but no such modification or amendment shall (a) extend the maturity of the principal of or interest on this Bond, or (b) reduce the principal amount or redemption price or rate of interest hereon, or (c) reduce the percentage of Bonds required for the written consent to an amendment or modification, all as more fully set forth in the Resolution.

It is hereby certified that all of the conditions, things and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened or have been performed in due and regular time, form and manner as required by Bond Law and the laws of the State of California, and that the amount of this Bond, together with all other indebtedness of the Agency, does not exceed any limit prescribed by the Bond Law or any laws of the State of California, and is not in excess of the amount of Bonds permitted to be issued under the Resolution.

IN WITNESS WHEREOF, THE ALISO WATER MANAGEMENT AGENCY has caused this Bond to be executed in its name and on its behalf with the facsimile signature of its Chairman and the countersignature of its Secretary and the seal of the Agency to be imprinted hereon, and the interest coupons attached hereto to be executed with the facsimile signature of its Secretary, all as of the first day of January, 1978.

ALISO WATER MANAGEMENT AGENCY

By _____
Chairman

[Seal]

Countersigned:

Secretary

[FORM OF INTEREST COUPON]

ALISO WATER MANAGEMENT AGENCY, on _____, 19____
unless the Bond herein mentioned shall have been previously called for redemption and payment of the redemption price duly provided for, will pay (but only out of the Revenues referred to in said Bond) to bearer at the principal offices of the Trustee, Crocker National Bank in the Cities of Los Angeles and San Francisco, California, or, at the option of the Holder, at the offices of the Paying Agents of the Authority in New York, New York; or Chicago, Illinois, upon surrender hereof, the sum set forth herein in lawful money of the United States of America, being interest then due on its SEWERAGE FACILITIES REVENUE BOND, SERIES A, dated January 1, 1978.

Coupon No. ____

\$ _____

No. _____

Secretary

[FORM FOR REVERSE OF COUPON]

If the Bond to which this coupon is attached is redeemable and is duly called for redemption on a date prior to the maturity date of this coupon, this coupon will be void.

EXHIBIT B

[FORM OF FULLY REGISTERED BOND]

Fully Registered Bond
No. R _____

ALISO WATER MANAGEMENT AGENCY
SEWERAGE FACILITIES REVENUE BOND,
SERIES A

ALISO WATER MANAGEMENT AGENCY, a duly constituted public entity and public agency created by the City of Laguna Beach, the El Toro Water District, the Emerald Bay Services District, the Irvine Ranch Water District, the Los Alisos Water District, the Moulton-Niguel Water District, and the South Coast County Water District in the State of California (herein called the "Agency"), for value received, hereby promises to pay (but only out of the revenues hereinafter referred to) to _____ or registered assigns, herein sometimes referred to as "registered owner" (subject to the right of prior redemption hereinafter mentioned), the principal sum of _____ Dollars (\$ _____), being Bonds maturing on _____, as follows:

<u>Maturity Date</u>	<u>Amount</u>	<u>Rate</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

and to pay such registered owner by check or draft mailed thereto, at his address as it appears on the register kept by the Trustee at the close of business on the fifteenth day preceding the interest payment date, interest on such principal sum from the interest payment date next preceding the date hereof (unless the date hereof is prior to January 1, 1979, in which event from January 1, 1978, or unless this Bond is dated January 1, or July 1, in

which event from the date hereof) until the principal hereof shall have been paid, or provided for, in accordance with the Resolution hereinafter referred to, at the rate or rates above indicated, payable semiannually on January 1, or July 1, in each year except that the first interest payment shall represent interest from the date of the bonds to January 1, 1979. The principal hereof and interest hereon and any premium upon the redemption prior to maturity of all or any part hereof are payable in lawful money of the United States of America, and (except for interest which is payable by check or draft as stated above) are payable at the principal offices of the Trustee, Crocker National Bank, in the Cities of Los Angeles and San Francisco, California, or, at the option of the Holder, at the offices of the Paying Agents of the Agency in the City of New York, New York; or the City of Chicago, Illinois.

This Bond is one of a duly authorized issue of Sewerage Facilities Revenue Bonds (herein called the "Bonds") aggregating \$4,250,000 in principal amount. Said issue of Bonds is regularly issued pursuant to the provisions of the Revenue Bond Law of 1941 (herein called the "Bond Law"), and pursuant to a Resolution of the Agency authorizing the issuance of the Bonds (herein called the "Resolution") entitled "Resolution of the Aliso Water Management Agency Constituting Its Indenture Providing the Terms and Conditions for the Issuance of \$4,250,000 Sewerage Facilities Revenue Bonds, Series A". Reference is hereby made to the Resolution (a copy of which is on file at said office of the Trustee and the offices of the Secretary of the Agency and the City Clerk of the City of Laguna Beach), to any resolution supplemental thereto and to the Bond Law for a description of the terms and conditions under which the Bonds are issued, the provisions with regard to the Revenues, as that term is defined in the Resolution, and the rights of the holders of the Bearer Bonds, and the coupons thereof, and the rights of the registered owners of the Fully Registered Bonds; and all the terms of the Resolution and the Bond Law are hereby incorporated herein and constitute a contract between the Agency and the registered owner of this Bond, and to all the provisions thereof the registered owner of this Bond by his acceptance hereof, consents and agrees.

Said Resolution is adopted under and this Bond is issued under and is to be construed in accordance with the law of the State of California.

This Bond and the interest hereon and all other Bonds and the interest thereon (to the extent set forth in the Resolution) are payable from, and are secured by a pledge of and lien upon, the Revenues derived by the Agency from the Project (as that term is defined in the Resolution); and all such Revenues constitute a trust fund, in accordance with the provisions of the Resolution and the Bond Law, for the security and payment or redemption of, and for the security and payment of interest on, the Bonds.

This Bond is a special obligation of the Agency only, and is not a liability of any other public agency, or a

pledge of or lien against the property or funds of the Agency, except to the extent of the pledge of and lien upon the Revenues, as provided by the Resolution. Neither the payment of the principal of this Bond, or any part thereof, nor any interest or premium thereon constitute a debt, liability or obligation of the City of Laguna Beach, the El Toro Water District, the Emerald Bay Services District, the Irvine Ranch Water District, the Los Alisos Water District, the Moulton-Niguel Water District, or the South Coast County Water District, the public agencies who are parties to the Agreement creating the Agency.

The Bonds of the issue of which this Bond is one are redeemable prior to maturity in the event of loss of or damage to or condemnation of the Project on any succeeding date, as more fully set out in the Resolution, for the principal amount thereof and accrued interest to the date of redemption plus the premium applicable thereto, as hereinafter set forth in the succeeding paragraph, or, if none is applicable, at a premium (percentage of par value) of four percent (4%), at the option of the Agency, as a whole, or in part but only in the manner and only from the funds as provided in said Resolution.

Except as set forth in the preceding paragraph, Bonds maturing on or prior to July 1, 1988, are not subject to call or redemption prior to maturity. Bonds maturing on or after July 1, 1989, may be called prior to maturity, at the option of the Agency, as a whole, or in part in inverse order of maturity and by lot within a single maturity, and redeemed from funds derived by the Agency from any source, on July 1, 1988, or on any interest payment date thereafter, upon payment of a redemption price equal to the principal amount thereof plus a premium of $\frac{1}{4}$ of 1% of such principal amount for each whole year and for the fraction of a year, if any, remaining from the redemption date to the stated maturity of the Bonds so called for redemption, but in no event shall the premium exceed four percent (4%) of such principal amount. Notice of call and redemption prior to maturity shall be given as provided in the Resolution.

This Bond is issued in fully registered form (herein sometimes referred to as "Fully Registered Bond") and is non-negotiable. This Bond may be exchanged for a like aggregate principal amount of Bearer Bonds of the same series, interest rate or rates and maturity or maturities bearing all unmatured coupons or for a like aggregate principal amount of Fully Registered Bonds of other authorized denominations of the same series, interest rate or rates and maturity or maturities and Bearer Bonds bearing all unmatured coupons may be exchanged for a like aggregate principal amount of Fully Registered Bonds of authorized denominations of the same series, interest rate or rates and maturity or maturities. This Bond is transferable by the registered owner hereof, in person or by his attorney duly authorized in writing, at the principal office of the Trustee in the City of Los Angeles, California, but only in the manner, subject to the limitations and upon payment of the charges provided in the Resolution, and upon surrender and cancellation of this Bond. Upon

such transfer a new registered Bond of authorized denomination or denominations for the same aggregate principal amount of the same series, interest rate or rates and maturity or maturities will be issued to the transferee in exchange herefor. No exchange or transfer shall be made between the fifteenth day preceding any interest payment date and such interest payment date.

The Agency, the Trustee and any Paying Agent may treat the registered owner hereof as the absolute owner hereof for all purposes; and the Agency, the Trustee and any Paying Agent shall not be affected by any notice to the contrary.

The rights and obligations of the Agency and of the holders and registered owners of the Bonds may be modified or amended at any time in the manner, to the extent and upon the terms provided in the Resolution, but no such modification or amendment shall (a) extend the maturity of the principal of or interest on this Bond, or (b) reduce the principal amount or redemption price or rate of interest hereon, or (c) reduce the percentage of Bonds required for the written consent to an amendment or modification, all as more fully set forth in the Resolution.

It is hereby certified that all of the conditions, things and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened or have been performed in due and regular time, form and manner as required by the Bond Law and the laws of the State of California, and that the amount of this Bond, together with all other indebtedness of the Agency, does not exceed any limit prescribed by the Bond Law or any laws of the State of California, and is not in excess of the the amount of Bonds permitted to be issued under the Resolution.

This Bond shall not be entitled to any benefit under the Resolution, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been signed by the Trustee.

IN WITNESS WHEREOF, THE ALISO WATER MANAGEMENT AGENCY has caused this Bond to be executed in its name and on its behalf with the facsimile signature of its Chairman and the countersignature of its Secretary and the seal of the Agency to be imprinted hereon, all as of the ____ day _____, 19__.

ALISO WATER MANAGEMENT AGENCY

By _____
Chairman

(Seal)

Countersigned:

Secretary

[FORM OF CERTIFICATE OF AUTHENTICATION
ON FULLY REGISTERED BONDS]

This is one of the Fully Registered Bonds described in the within-mentioned Resolution.

Crocker National Bank, as Trustee

By _____
Authorized Officer

[FORM OF ENDORSEMENT ON
FULLY REGISTERED BONDS]

This Fully Registered Bond (issued in fully registered form without coupons) is issued in lieu of or in exchange for Bearer Bond(s) of this issue of the denomination of \$5,000 each, not contemporaneously outstanding, aggregating the face value hereof; and Bearer Bonds of this same issue and of the denomination of \$5,000 will be issued in exchange for this Bond in the maner, with the effect and under the terms and conditions stated on the face of the Bond and in the Resolution referred to therein.

[FORM OF ASSIGNMENT ON
FULLY REGISTERED BONDS]

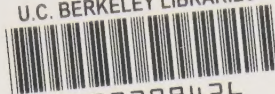
For value received _____ hereby sells, assigns and transfers unto _____ the within-mentioned Bond and hereby irrevocably constitute and appoint _____ attorney, to transfer the same on the books of the Trustee with full power of substitution in the premises.

Dated: _____

NOTE: The signature to this Assignment must correspond with the name as written on the face of the within Bond in every particular, without alteration or enlargement or any change whatsoever.

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